

**Provincial Government Western Cape
Provincial Treasury**

**MEDIUM TERM BUDGET
POLICY STATEMENT**

2007 - 2010



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Foreword

This fiscal policy statement sets out Provincial policy priorities and reveals the intended spending plans of this Government for the next three years. The 2007 MTBPS is tabled in the context of exciting planning to prepare the City of Cape Town as a host city for FIFA WC2010. Furthermore, the iKapa Elihlumayo Provincial Growth and Development Strategy recently reached the status of a Green Paper, released for public comment in October 2006. As the Province's agenda for achieving faster, shared growth, the PGDS must also serve as the guiding policy document for this 2007 MTBPS. The PGDS provides the vision while the MTBPS provides the Provincial government resources to bring about the desired shift in our development path. Finally, the 2007 MTBPS wrestles with budget pressures brought about by changes to the equitable share formula and also outlines the Provincial strategy for sourcing own revenue via the Fuel Levy and Asset Financing Reserve.

The document is the culmination of a lengthy, collaborative process both with national government and between provincial departments. Through various intergovernmental forums, including the Budget Council and sectoral '10x10' meetings, the provinces engaged intensively with National Treasury and the national departments to identify and agree upon national priorities for the sectors. In the Western Cape, the MTEC engagements in September allowed the Provincial Treasury and individual departments to sit down together to discuss departmental progress, challenges and cost pressures.

The Social, Economic and Governance and Administration Clusters then met to thrash out the priorities of their Cluster as a whole and to begin together to make the tough prioritization decisions required in budgeting. Task Teams for each Cabcom were established to update their joint criteria for assessing the cluster's policy options (as originally set out in 2006/07 Budget). The three Task Teams met in September and October to: finalise their cluster criteria, score their departments' policy options against each of those criteria; moderate the scores and agree upon a ranked list of policy options for the cluster as a whole.

The outcome of this process is a Provincial spending plan which takes its cue from country-wide objectives, namely AsgiSA, and provincial aims outlined in the Western Cape's own iKapa Elihlumayo PGDS. Thus the hard numbers contained in this document are the result of a phased process of hard discussion among sectors and spheres of government on our policy priorities, the most effective strategies to achieve those priorities, and the quantification of the resource gaps.

In essence, the 2007 MTBPS emphasises strategic economic infrastructure, invests heavily in skills development and improvements in the quality of education, and makes important steps to boost the remuneration of health and education professionals.

The Main Budget 2007/08, to be tabled in the Provincial Legislature on 6 March 2007, will disaggregate these broad thrusts of the MTBPS 2007-2010 into specific allocations per sector and vote over the next three years.



Lynne Brown
Minister of Finance and Tourism

November 2006

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Abbreviations

ACSA	Airports Company of South Africa
AFR	Asset Financing Reserve
AsgiSA	Accelerated and Shared Growth Initiative — South Africa
BAS	Basic Accounting System
BBBEE	Broad Based Black Economic Empowerment
BER	Bureau for Economic Research
BNG	Breaking New Ground
BPO	Business Process Outsourcing
CEMIS	Central Education Management Information System
CPIX	Consumer price index
DBSA	Development Bank of Southern Africa
DEDAT	Department of Economic Development and Tourism
DMA	Disaster Management Act
DoTP	Department of the Premier
DTI	Department of Trade and Industry
EPWP	Expanded Public Works Programme
ECD	Early Childhood Development
EMIS	Education Management Information System
EPWP	Expanded Public Works Programme
FFC	Financial and Fiscal Commission
FSD	Farmer Support and Development
GDP	Gross Domestic Product
GDP-R	Gross Domestic Product by Region
GET	General Education and Training
GHS	General Household Survey
HCDS	Human Capital Development Strategy
HSS	Human Settlement Strategy
ICT	Information Communication Technology
IDIP	Infrastructure Delivery Improvement Programme
IDPs	Integrated Development Plans
IHAHSD	Integrated Housing and Human Settlement Development Grant
ILRP	Integrated Law Reform Project
JIPSA	Joint Initiative on Priority Skills Acquisition
LED	Local Economic Development
LIC	Labour-intensive construction
MEDS	Micro-Economic Development Strategy
MIG	Municipal Infrastructure Grant
MoA	Memorandum of Agreement
MoU	Memorandum of Understanding
MTBPS	Medium Term Budget Policy Statement

MTEF	Medium Term Expenditure Framework
NSDP	National Spatial Development Perspective
NTSG	National Tertiary Services Grant
PES	Provincial Equitable Share
PGDS	Provincial Growth and Development Summit
PGWC	Provincial Government Western Cape
PHC	Primary Health Care
PIG	Provincial Infrastructure Grant
PMTCT	Prevention of Mother-to-Child Transmission
PPPs	Public Private Partnerships
PRF	Provincial Revenue Fund
PSDF	Provincial Spatial Development Framework
PT	Provincial Treasury
PTIF	Public Transport Infrastructure Fund
RED	Real Enterprise Development
SASSA	South African Social Security Agency
SCFS	Social Capital Formation Strategy
SDIP	Sustainable Development Implementation Plan
SHSS	Sustainable Human Settlement Strategy
SIP	Strategic Infrastructure Plan
SMME	Small Medium and Micro Enterprise
SMS	Senior Management Services
SOEs	State Owned Enterprises
SSS	Scarce Skills Strategy
TB	Tuberculosis
UPFS	Uniform Patient Fee Schedule
URP	Urban Renewal Programme
WCED	Western Cape Education Department
Wesgro	Western Cape Investment and Trade Promotion Agency

Overview of 2007 Western Cape MTBPS

Following from the national objective of faster, shared growth, the two main themes of the 2007 MTEF are economic infrastructure and skills development. In keeping with South Africa's cooperative governance principles, provinces are expected to express these national priorities in their provincial budgets. The iKapa Elihluymayo PGDS is the main document setting out the Western Cape's growth and development agenda and thus is the key reference point for aligning national policy priorities with provincial spending priorities. The WC MTBPS hangs on the PGDS Green paper as its policy anchor while contributing to national AsgiSA objectives.

However government cannot set ambitious targets without also putting in place the institutions and capacities which we need to grow. Thus interventions to improve financial governance and strengthen capacity are also given attention and resources. Most of the additional funds available through the equitable share are targeted for personnel-related initiatives in health and education. The drive to improve the quality of and access to social services continues from the 2006 MTEF into current spending plans and is deepened over the medium term.

This chapter provides a brief overview of the contents of the MTBPS, including macroeconomic outlook, policy context, revenue and expenditure trends, and departmental plans.

Economic analysis and socio-economic imperatives (Chapter 2)

Western Cape economy out-performed the National economy at an estimated rate of 5,6 per cent in 2005

Chapter 2 provides the macro-economic backdrop for the 2007 MTBPS and argues that the overall trend is upbeat, with the Western Cape outperforming the national economy at an estimated 5,6 per cent in 2005. However formal sector employment is not growing as desired, and regional manufacturing growth has been disappointing. Employment creation remains a challenge, particularly in the agricultural and manufacturing sectors. Yet the health of the service industries and construction sector in the Province is more encouraging.

Formal employment remains a challenge, particularly for manufacturing and agriculture

The environment of low inflation and low interest rates (2003/04 and 2004/05) benefited local municipalities that hold high potential for economic growth. However the challenge is to ensure that those municipalities with low economic growth potential remain sustainable and are able to share in the benefits of provincial growth.

In summary, the Province must urgently embark on a path of shared growth path and work to position itself as a destination for investment by instilling confidence in the private sector. There is a need to grow an inclusive economy (including the second economy) and to take a different development approach for rural areas. Reviving the export market and implementing effective employment creation strategies are also critical priorities.

National and Provincial Policy Priorities (Chapter 3)

WC MTBPS reflects priorities set out in PGDS and AsgiSA

Given the macro-economic backdrop provided in Chapter 2, Chapter 3 sets out the national policy priorities for the 2007 MTEF and demonstrates how the provincial priorities, as encapsulated in the PGDS, are embedded within the national policy framework. Last year's Western Cape MTBPS flowed from the national drive towards accelerated and shared economic growth and the current 2007 MTEF builds on the themes.

AsgiSA sets out six categories of interventions which are designed to unlock the binding constraints to the national economy. It is now incumbent on the provinces to take AsgiSA – a national shared growth initiative – and to give its goals and interventions provincial-specific relevance and content.

The Joint Initiative for Priority Skills Acquisition (JIPSA) concentrates on acquiring the skills needed for ASGISA, which means largely skills needed for infrastructure development; tourism and Business Process Outsourcing (BPO). Added to this, are skills for the other sectors identified in AsgiSA, including agriculture, creative industries, and biofuels. JIPSA's agenda is taken forward in the Western Cape

through the Skills Task Team, which will pursue large-scale interventions to acquire skills for priority sectors in the Western Cape.

The Resource Envelope and Financing Issues (Chapter 4)

Chapter 4 indicates the entire resource envelope available to the Province over the 2007 MTEF, noting the additional funds via the equitable share and conditional grants as well as the change to the PES formula that compels a cut in the Western Cape's PES revenue.

The 2007 MTEF expenditure priorities will be financed via three main sources: transfers from national government (including equitable share and conditional grants) which together are projected to form 90,9 per cent of the budget in 2007/08; provincial own revenue (taxes and fees) estimated to constitute 7,7 per cent in 2007/08; and the Asset Financing Reserve estimated to contribute the remaining 1,4 per cent in 2007/08.

R20,4 billion total budget for 2007/08

Table 1.1: Fiscal Framework of the Western Cape

Source	2006/07	2007/08	2008/09	2009/10	Ave Annual Growth Rate 06/07-09/10
R'000	Adjusted Budget	Medium Term Estimates			
Equitable share	13 459 403	15 117 707	16 898 432	18 689 301	11.56%
Conditional grants	2 947 729	3 403 177	3 731 824	4 040 876	11.09%
Transfers from National	16 407 132	18 520 884	20 630 256	22 730 177	11.48%
Own revenue	1 537 304	1 561 091	1 602 111	1 597 047	1.28%
Asset Financing Reserve	625 936	290 294	300 000		-
Total	18 570 372	20 372 269	22 532 367	24 327 224	9.42%
Contingency reserve		55 000	60 000	65 000	-

Nationally revisions have been made to the PES formula as a result of:

- Demarcation of provincial boundaries;
- Data revisions;
- Discontinuation of the use of moving averages, and
- Discontinuation of the phasing in of revised shares.

Changes to PES formula negatively impact Western Cape

Although, the Western Cape is not affected by the demarcation of provincial boundaries, data revisions have resulted in a reduction of the Western Cape's equitable share.

Taking the data revisions to the PES into consideration and before adding any additional amounts to the baseline, the Western Cape's equitable share allocation decreases by R102,44 million in 2007/08, R32,83 million in 2008/09 and R35,29 million in 2009/10.

Table 1.2: Comparison between 2006 and 2007 MTEF allocations

	2006/07	2007/08	2008/09	2009/10
2006 MTEF	13 459 403	14 906 049	16 546 427	17 787 409
2007 MTEF (demarcation and data revisions)	13 459 403	14 803 613	16 513 600	17 752 120
Difference		(102 436)	(32 827)	(35 289)
2007 MTEF final allocations	13 459 403	15 117 707	16 898 432	18 689 301
Difference	-	211 658	352 005	901 892

On top of this, National Government has increased the national PES allocation to all provinces over the 2007 MTEF by R18,59 billion to take account of Government's priorities.

Net R1,47 billion increase to Province's equitable share baseline over 2007 MTEF

The overall impact of both data revisions and increased baselines is a net R1,47 billion increase in the Western Cape's PES allocation over the 2007 MTEF. This includes R211,66 million in 2007/08, R352,01 million in 2008/09 and R901,89 million in 2009/10.

Final PES allocations to the Western Cape therefore amount to R15,12 billion in 2007/08. Between 2006/07 and 2009/10, the Province's equitable share allocation is projected to grow at an average annual rate of 11,6 per cent.

Province's share of total provincial equitable share drops slightly

The Western Cape's share of the total equitable share allocation going to provinces decreased from 8,8143 per cent over the 2006/07 MTEF to 8,7982 per cent over the 2007/08 MTEF.

In aggregate, conditional grant transfers to the Province are estimated to increase to R3,403 billion in 2007/08. Conditional grant allocations are projected to grow at average annual rate of 11,1 per cent between 2006/07 and 2009/10.

Large increases to conditional grant funds for infrastructure and housing

A total of R805 million of additional conditional grant funds will flow to the Western Cape over the 2007 MTEF. The largest additions are to the Provincial Infrastructure Grant (R270,91 million additional over the 2007 MTEF) and the Integrated Housing and Human Settlement grant (R252,058 million additional over the 2007 MTEF). No new grants are to be introduced into the Conditional Grant structure during 2007 MTEF.

Table 1.3: Conditional Grants: Comparison between 2006 and 2007 MTEF allocations

Grant (R'000s)	National	Provincial	Revisions to baseline		
	2007 MTEF baseline adjustments		2007/08	2008/09	2009/10
Integrated Housing and Human Settlement	1 220 000	252 058	28 290	106 748	117 020
Provincial Infrastructure Grant	4 290 000	270 910	60 428	81 134	129 348
National tertiary services	550 000	128 923	25 117	50 437	53 369
Hospital revitalisation	1 000 000	76 086	12 640	18 780	44 666
Comprehensive HIV and Aids	750 000	56 031	7 380	14 760	33 891
Mass Sport and Recreation Participation Grant	255 000	20 996	3 506	7 458	10 032
Total	8 065 000	805 004	137 361	279 317	388 326

At present, provincial own sourced revenue is largely limited to motor vehicle license fees, gambling revenue and hospital fees. Provincial own receipts are projected to increase from R1,537 billion in 2006/07 to R1,561 billion in 2007/06. The Departments of Transport and Public Works, Health and Provincial Treasury contribute the bulk of Province's Own Receipts.

Table 1.4: Western Cape Own Receipts by Source 2006/07 – 2009/10

Source R'000	2006/07	2007/08	2008/09	2009/10
	Adjusted Budget	Medium term estimates		
Tax receipts	994 991	1 081 547	1 125 312	1 170 876
Casino taxes	221 960	266 630	272 672	281 627
Horse racing taxes	15 200	17 607	17 607	17 607
Motor vehicle licences	753 501	776 106	799 389	799 389
Liquor licenses and other taxes	4 330	20 500	23 500	27 000
Sales of goods and services other than capital assets	283 359	262 449	266 321	267 764
Transfers received	101 741	106 055	111 721	111 721
Fines, penalties and forfeits	550	623	608	618
Interest, dividends and rent on land	58 992	55 076	57 501	58 535
Sales of capital assets	16 293	49	49	49
Financial transactions in assets and liabilities	81 378	55 996	52 743	32 737
Total	1 537 304	1 561 091	1 602 111	1 597 047

Motor vehicle license fees are projected to increase from R754 million in 2006/07, to R776 million in 2007/08, R799 million in 2008/09 and stay at the 2008/09 level in 2009/10. In anticipation of the implementation of the fuel levy in 2008/09, the Provincial Treasury and the Department of Transport and Public Works agreed that the motor vehicle license fees projections would only be adjusted by the annual average vehicle population growth rate of 3 per cent over the 2007 MTEF. Therefore Transport and Public Works would not increase fee levels in the medium term.

Interest revenue is projected to decrease from R59,0 million in 2006/07 to R55,1 million in 2007/08. Over the rest of the 2007 MTEF, interest revenue is projected to rise slightly year-on-year and reach R58,5 million in 2009/10.

Casino taxes (including limited gambling machines) are the third largest source of revenue available to the Province. These amounts are projected to increase from R221,96 million in 2006/07 to R266,63 million in 2007/08. By 2009/10, casino taxes are expected to reach R281,63 million.

Province benefits from increase in revenue from liquor licence fees

Liquor licence fees are budgeted to contribute R4,3 million in 2006/07. In 2007/08 it is envisaged that the amount will increase substantially to R20,5 million due to the introduction of the Western Cape Liquor Act, scheduled for passing in March 2007. Over the rest of the 2007 MTEF liquor licence fee receipts are projected to increase steadily to R23,5 million in 2008/09 and R27 million in 2009/10. As it is currently drafted, the Liquor Bill provides for substantial changes in the way that the industry is regulated. The changes will result in a large increase in the number of liquor sellers requiring licences.

Fuel levy approved by national Minister of Finance

The Western Cape has identified a number of new taxes for consideration, including a **fuel levy** and a tourism levy. Research conducted by the Province has shown that a levy on fuel sales is a viable source of revenue in the Western Cape. Subsequently, the national Minister of Finance conditionally approved the use of this tax by the Province in the first part of 2006, and the Province has requested the Minister of Finance to introduce the required national enabling legislation by 2007. Thereafter the Provincial Treasury will table the draft Western Cape Fuel Levy Bill. Following consultation and amendments, it is expected that a final Bill will be tabled in Provincial Parliament at the time of the 2008 Budget and passed into law later in that year.

Research on the viability of a **tourism levy** is being undertaken. The proposal is that the new tax/es would either take the form of a tourism tax on specific highly popular tourist sites in the Province, a bed/accommodation levy or a passenger movement/airport entry-based levy, or a combination of these. Announcements on progress will be made with the tabling of the 2007 budget.

The third source of revenue available to the Province is the **Asset Financing Reserve (AFR)**. The Provincial Treasury has created a separate vote and responsibility code on Basic Accounting System (BAS) in the books of the Provincial Revenue Fund to better manage the investment of the reserves in the AFR. The AFR funds will mainly be used to finance roads infrastructure construction.

The allocation for roads from the AFR is projected to be R290,3 million in 2007/08. In 2008/09, the AFR allocation will total R300 million. R188 million of the R300 million will be used for roads while the remaining R112 million is contributed for the construction of the new Greenpoint Stadium, in preparation for 2010 FIFA World Cup.

Asset Financing Reserve enables increased infrastructure-related spending

Expenditure trends (Chapter 5)

This Chapter summarises the expenditure trends, the full detail of which is captured in the Adjusted Estimates published with the MTBPS. The Chapter covers expenditure outcomes for 2005/06 and half-year spending thus far for 2006/07. The first half of 2006/07 has seen departments exercise fiscal discipline and do better planning giving rise to smoother expenditure. The 2005/06 March expenditure spike was also significantly lower than in the previous year. Accelerated expenditure on infrastructure is expected to continue over the 2007/08 MTEF period. The chapter is included to give insight on how well Departments are managing to utilize their funds and thus provide spending capacity information to inform future allocations.

Departments show improvement in spending

Cluster Progress, Priorities and Plans (Chapter 6)

Chapter 6 ties the previous chapters together to show how Clusters and their constituent departments plan to operationalise the 2007 MTEF policy priorities. Given the policy context, resource constraints and spending capacity of departments, the question is how these policy priorities will be converted into service delivery outcomes.

General Cluster priorities

Over the medium term, the Social Cluster elected to collectively prioritise improvements in the quality of care and efforts to strengthen internal capacity to deliver. Furthermore, the Cluster has put special emphasis on lessening the burden of trauma and disease, by investing in emergency medical services and programmes to address infectious disease.

Over the 2007 MTEF, the Economic Cluster receives renewed impetus from AsgiSA and the strategic thrusts of the PGDS. The Cluster as a whole elected to prioritise workforce/skills development; infrastructure, especially roads; internal capacity; EPWP; and tourism.

As a Cluster, the Governance and Administration Departments are prioritising critical investment to strengthen the provincial government internally thereby improving its capacity to deliver effectively and efficiently. The 2007 MTEF priorities of the Cluster

include security risk management for Provincial Government of the Western Cape (PGWC) employees and facilities, internal audit capacity in Departments to strengthen financial governance, and the filling of vital posts in the newly-restructured Department of the Premier. Disaster management and capacity building for municipalities are also funded priorities in the 2007 MTEF.

Specific spending priorities for additional PES funds

The WC receives an additional amount of R1,47 billion additional PES funds over the 2007 MTEF. In essence these additional PES funds are intended for priority areas in social development, education and health, and to ratchet up support to economic functions, which feed into ASGISA. In particular, national government is putting a keen interest in human resource issues in the social sector, and the need to increase salary levels and decrease vacancies.

R1,47 billion additional equitable share funds for Western Cape over 2007 MTEF

In the Western Cape, these personnel-related initiatives described above for the Education, Health and Social Development sectors will receive the majority of the new PES funds made available over the 2007 MTEF. Approximately R635 million over the MTEF will be targeted for the following two priorities:

- Phased implementation of the Health Professional Remuneration Review to reward experience and retain staff through salary adjustments. Given the cost of such an exercise and the critical situation with nursing staff, a phased approach commencing with nurses will be followed. Salary adjustments will be extended to doctors and other categories of health professionals in the following years.
- Improvement to remuneration of specific categories of school managers and other educators over MTEF (maths & sciences teachers, amongst others).

Increases planned for remuneration for health and education professionals

Another R324 million is made available for the other personnel-related priorities in the social sector:

- Creation of additional posts for health professionals.
- Employment of social auxiliary workers for tasks that do not legally require a social worker. There are also aims to raise the number of qualified social workers to work in both the public and non-governmental sectors (NGOs).
- Teacher development and in-service training to improve teaching quality in subjects like math's, literacy and life orientation, Grade R teaching and school management.
- Administrative support to schools and EMDCs.

Additional funds for social auxiliary workers and teacher development

Approximately R166 million of the additional PES funds are available for other items in the social services. This includes allocations for:

- Emergency Medical Services, to be rolled out over the 2007 MTEF in preparation of the World Cup 2010. The funds will be used to shorten response times and improve services, by spending on equipment, ambulance station upgrade, ambulance colleges, and new ambulances.
- Systemic evaluation of learners in schools, to inform and improve targeting and policy development.
- Interventions and centers to address substance abuse. The Department is developing an Integrated Provincial Substance Abuse Strategy which focuses on education and training, developing criteria for the expansion of services for both residential and non-residential services and ensuring accreditation of substance abuse programmes.

Continued push to improve quality of education and combat substance abuse

Approximately R324m of additional PES funds are available over the 2007 MTEF for our provincial-specific economic priorities. The intention is to step up functions such as job creation in fire management on our reserves, veterinary services, tourism infrastructure, and skills and workforce development.

Conclusion

The 2007 MTEF is very much a continuation and deepening of key themes set out in the previous 2006 MTEF. Improving the quality of education and health care, as well as extending access to social services, were paramount themes in the 2006 MTEF and are carried through into the 2007 MTEF.

Infrastructure and skills development are highlighted as two vital threads which run through AsgiSA and the PGDS and are given expression in the 2007 MTPBS. Economic infrastructure investment is catalysed by the immediate need to establish adequate infrastructure for WC 2010. The PGDS reinforces this priority by fore-fronting Public Transport as its 'path-breaking' lead intervention.

2007 MTBPS continues and deepens priorities set out in previous MTBPS

JIPSA, ASGISA and the PGDS all put skills development and training front and centre. A wide range of sectors, departments, and stakeholders are being encouraged to promote learnerships, training, and work opportunities in various fields, as part of a national 'skills revolution'. The 2007 MTEF thus contains sizable investments in workforce and skills development, learnerships, and bursaries in a variety of sectors, such as roads, EPWP, FET colleges, agriculture, SMME's and environmental sectors and tourism.

Focus on economic infrastructure, skills development and social sector

The primary purpose of the Medium Term Budget Policy Statement, as the guiding document of fiscal policy for this 3-year budget cycle, is to demonstrate how the spending priorities set out here support the strategic goals of the PGDS. However assessing linkages between the PGDS and the Province's budget is not a matter of simply checking if

WC MTBPS supports PGDS Green Paper

all PGDS interventions are funded. We must consider the direct and indirect impact of the provincial budget. Apart from the direct items or services which the budget buys, expenditure can have secondary indirect impacts which also advance Provincial development objectives. When we pick the optimum mix of interventions or services to fund, the whole is greater than the sum of the parts.

In essence, the provincial priorities encapsulated in the PGDS must be balanced and integrated with national priorities. Past achievements are built upon and national and provincial priorities are sustained and deepened moving forward. Significant changes in how government works and how we build our communities cannot take place overnight. The 2007 MTEF is part of progressive realisation of our provincial goal of accelerated, shared growth.

Macroeconomic overview

The Western Cape's economic growth performance remains positive, with its growth rate outperforming the national economy. In 2005, the Western Cape economy grew at an estimated rate of 5,6 per cent. However, formal employment is not growing as desired, and regional manufacturing growth has been disappointing. Employment creation remains a challenge, particularly in the agricultural and manufacturing sectors. The service industries and construction sector record a positive outlook.

The environment of low inflation and low interest rates in 2003/04 and 2004/05 benefited the local municipalities that hold high potential for economic growth. However, the challenge is to ensure that municipalities with low economic growth potential are stimulated and sustained, and are able to share in the benefits of provincial growth.

The 2007 MTBPS aims to place the Province on a shared growth path. The acceleration of infrastructure investment will set the stage for economic growth and boost fixed investment, making the Western Cape an attractive destination for foreign and domestic investment, improving employment opportunities. The challenge is to revive the export market, and bring the rural communities into the mainstream economy.

Setting the Scene

While the tightening monetary policy will certainly put a damper on growth prospects, the accelerated infrastructure drive will set the stage for South Africa's economic growth in the medium term, and further boost fixed investment. During 2004 and 2005, the national economy expanded by 4,5 per cent and 4,9 per cent respectively. The growth momentum remains close to 5 per cent during the second quarter of 2006.

Western Cape economy out-performed the National economy at an estimated rate of 5,6 per cent in 2005

The Western Cape economy continued to take its cue from the robust economic performance seen in the national economy over the recent years. The Province's economic growth is estimated to have grown at a rate of 5,6 per cent in 2005 and is set to continue its growth in 2006.

This is due to growing evidence that robust regional growth is on the cards, particularly in the services industries outside of government and construction. However, regional manufacturing growth has disappointed and the sector suffered a sharp decline in confidence, contrary to the situation in the rest of the country.

The Western Cape economy's business cycle broadly tracks that of the national economy. The same factors currently affecting the national macro-economic climate will have an impact in the Province. The depreciation of the rand relative to the currencies of our major trading partners and the projected increase in inflation and interest rates impact on both the sectoral composition and level of growth in the Western Cape.

Both public and private sector fixed investment spending are projected to continue to grow strongly.

Developments on the global financial markets in May/June 2006 caused investors to withdraw funds from developing economies. The rand has since depreciated, followed by increases in inflation and interest rates. The impact of the interest rate hikes is beginning to filter through, resulting in a downward revision in growth forecasts. This is in line with the expected global slowdown.

However the current sustained general economic buoyancy should not conceal the fact that a more challenging growth environment is unfolding. All indications are that the global economy is heading for slower growth next year, commodity prices are declining and international investors have become more risk averse as interest rates in the industrial countries rise.

Global economic developments

Following the widespread consensus that the world economy is heading for slower growth in 2007, the global environment has been characterised by tighter liquidity conditions and high-risk aversion amongst international investors. Capital flows to developing countries are hence affected.

World Economy expected to slow down in 2007

The International Monetary Fund (IMF) expects some easing in global growth, from an estimated 5,1 per cent this year to 4,9 per cent in 2007.

The US, European and Japanese economies are expected to slow down. Analysts are, however divided regarding the magnitude of the economic slowdown in the US.

On the other hand, Chinese economic growth continues to cause surprise, with most analysts believing that the country will continue to grow by 9-10 per cent next year. Sustained strong growth in China and the fast industrialising developing economies of the world should remain a key support for the otherwise declining commodity prices.

China continues to set the pace of global growth

The South African economy

All indications are that the SA economy will continue to perform strongly during the third quarter of the year, probably matching the second quarter growth rate of nearly 5 per cent. The growth momentum in real domestic expenditure is strong, while the recent interest rate hikes will have a delayed impact.

Real GDP growth rate expected to decline to 4 per cent in 2006/07, and then pick up in run-up to WC 2010

Real GDP growth is projected to decelerate from 4,5 - 5 per cent during 2004/05 to closer to 4 per cent during 2006/07. This is due to the impact of higher inflation and interest rates over this time period. Indications are that the impact of higher interest rates will eventually change consumer behaviour.

However, an upbeat domestic economic growth outlook remains in place over the medium term. Growth is projected to accelerate again in the run-up to the 2010 FIFA World Cup.

In the medium term the interest rate sensitive sectors – retail, construction and financial services – could in particular experience slowdowns. Manufacturing, on the other hand, is benefiting from the more competitive currency.

Retail, construction and financial services industries could witness slowdowns due to interest rate hike

Table 2.1: Macro-economic outlook for South Africa: 2006 to 2009

	Ave 2000-2005	2005	2006F	2007F	2008F	2009F
EXPENDITURE ON GDP						
(real % change):						
Household consumption	4.6	6.9	6.6	3.6	4.1	4.3
Fixed investment	6.4	9.2	9.4	7.4	8.0	8.5
Gross domestic expenditure (GDE)	4.9	5.9	7.5	3.6	5.1	5.1
Exports	3.3	6.7	2.4	6.9	6.1	6.7
Gross Domestic Product (GDP)	3.8	4.9	4.3	4.1	4.2	5.2
INFLATION, INTEREST & EXCHANGE RATES						
CPIX inflation	6.5	3.9	4.7	5.9	5.7	4.9
PPI inflation	6.2	3.1	7.4	8.2	6.3	5.0
Prime overdraft rate	13.50	10.64	11.11	12.94	12.21	12.00
R/\$ exchange rate	7.74	6.36	6.84	7.93	8.48	8.95
R/euro exchange rate	8.09	7.92	8.65	10.47	10.87	11.14

Source: Bureau for Economic Research

Fixed investment

Broad fixed investment remains strong. This strength is due to the momentum in the public sector's investment drive, which is not affected by domestic interest rate increases. Higher inflation and interest rates are likely to cool down spending in the economy, from 6 to 4 per cent. However no recession is expected, due to the counterbalancing factors noted above.

Current Account

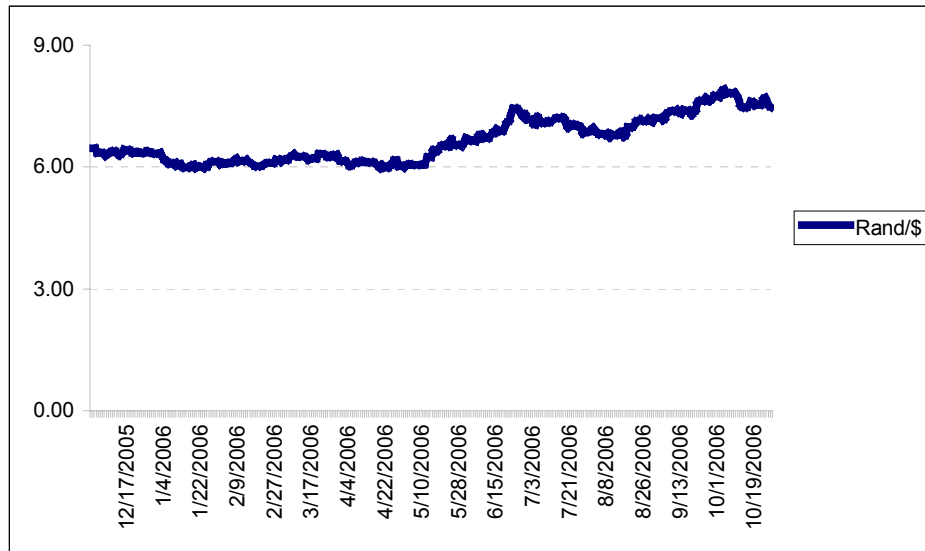
With regards to the balance of payments (BoP), the current account deficit registered at over 6 per cent of GDP during the first half of the year. This can be a source of vulnerability for the exchange rate. Between mid-May and mid-October 2006, the trade-weighted value of the rand exchange rate depreciated by 22 per cent.

The adjustment in the external value of the rand is not seen as a negative as long as the depreciation remains contained. Real domestic expenditure is projected to slow from 7,5 per cent to 3,5 per cent next year, cooling down import growth. Import growth will come under further pressure from the weaker external value of the rand.

Furthermore, exports are expected to respond positively to the currency adjustment. These tendencies should benefit the current account of the BoP and render domestic growth more sustainable.

Depreciation of the domestic currency relative to developed country currencies would stimulate exports and reduce current account deficit

Figure 2.1: Rand dollar exchange rate



The strong rand dollar exchange rate over the period from 2003 to the first half of 2006 indirectly added fuel to import demand and the domestic spending boom via lower inflation and interest rates. At the same time the strong rand exchange rate constrained exports, particularly in manufacturing.

The rand's recent depreciation should therefore be welcomed. While it will impact negatively on the favourable domestic pricing environment of recent years, this impact could be manageable given the monetary policy credibility of the SA Reserve Bank.

The current account of the BoP should improve as exports recover and import demand cools down on the back of higher import costs and slower domestic spending. The recovery in net exports can, to a large extent, compensate for the projected slowdown in the interest rate sensitive components of real domestic spending.

Therefore, while the composition of domestic economic growth may change, the level of growth could remain robust and better balanced.

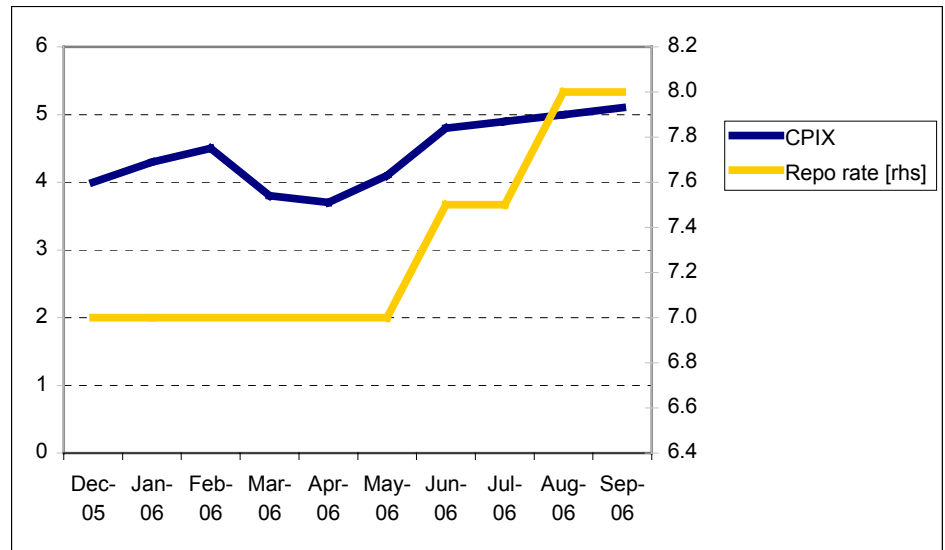
Short-term outlook

The consumer price index excluding the interest rate on mortgage bonds (CPIX) increased from 3,7 per cent in April 2006 to 5 per cent in August 2006. PPI inflation increased from 5,5 per cent to 9,2 per cent over this period, driven mainly by higher food and energy prices and the rand's depreciation.

It remains to be seen how strong the pass-through from the currency depreciation and the high PPI inflation to CPI inflation will be. These structural changes will weigh up against domestic firms which are eager to hike prices in order to catch-up with recent years' price

restraint and/or to insulate company earnings from lower sales volume growth.

Figure 2.2: CPIX and Repo rate



Source: SARB

Average CPIX inflation to remain within 3-6 per cent target band

In the short term, the increase in CPIX inflation is expected to be moderated somewhat by the reductions in the domestic petrol price. These reductions amount to between 36c/l and 50c/l and took effect in September and October respectively. A further 21 c/l reduction in the petrol price occurred in November 2006.

Pressures emanating from producer prices indicate that an increase in inflation can be expected. Inflation is likely to continue climbing towards the upper end of the target range and will remain at around the six per cent level between the second and fourth quarters of 2007.

Thereafter CPIX inflation is expected to decline gradually to reach around 5,4 per cent by the fourth quarter of 2008. PPI inflation is projected to reach double digits early in 2007.

Fixed investment and employment creation to drive growth

Real growth in gross domestic fixed investment accelerated to levels above 11 per cent (annualised) during the second quarter of 2006. The robust capital spending is led by the expansion of production in private and public sector corporations.

The cumulative growth of the SA economy over the past seven years has highlighted production capacity constraints across many industries. Statistics SA reports a historically high rate of manufacturing capacity utilisation during the second quarter of 2006.

In a sustained 4 per cent real GDP growth scenario, these production capacity constraints will continue to underpin fixed investment

spending. In the private sector, healthy balance sheets may also make companies less sensitive to the higher level of interest rates.

It is expected that private fixed investment spending will remain robust over the short to medium term. Combined with the public sector infrastructure spending programme, private fixed investment will increasingly drive economic growth.

The favourable fixed investment trend has also had a positive impact on employment creation. Formal sector employment creation has picked up over recent years – see Figure 2.4 below. Lower-income household consumer confidence is currently at a higher level than that of higher-income earners. This trend comes on the back of improved employment growth in the broader economy, both in the formal and informal sectors.

Sustained fixed investment spending and associated employment growth are expected to compensate for the negative impact of higher interest rates on the interest rate sensitive components of household spending and private fixed investment (e.g. residential construction).

The favourable fixed investment trend is also likely to be supported by a recovery in export growth. Manufacturers' export expectations have improved albeit that most of the renewed growth impetus may only be visible next year and during 2008.

Private and public sector fixed investments would yield economic spin-offs, boost employment and improve manufactures' export expectations

The Western Cape economy

The growth of Real Gross Domestic Product Per Region (GDPR) in the Western Cape continued at a relatively robust pace during 2006 following an estimated growth rate of 5,6 per cent last year.

Real GDPR growth remains relatively robust, at estimated 5,6 percent

The service industries (excluding government) continue to power the growth performance, increasing by an estimated 6,8 per cent during 2005 and 5,8 per cent during 2006. The construction sector is also expanding strongly, and grew at an estimated rate of more than 10 per cent during 2005/06. The strong momentum in real domestic spending on the back of low interest rates and inflation continue to benefit these sectors.

Manufacturing growth was constrained and the sector suffered a substantial setback in business confidence. Manufacturers also reported continued employment cutbacks in 2006. Quantec Research estimates an annual contraction of 0,7 per cent in 2005; this tendency is borne out by the BER's regional manufacturing survey (discussed below).

Current forecasts for projected growth rates in 2005/06 and 2006/07 are greater than previous forecasts, as the current momentum in the economy proved stronger than expected. Yet the forecast for 2007/08

Overall business confident index declines due to poor performance of manufacturing sector

has been revised down due to interest rate levels which were higher than expected.

Real output

Contrary to this robust picture, growth prospects are undermined by the slow growth in the agricultural and manufacturing sectors. These sectors continue to disappoint despite the recent currency weakness, which under normal circumstances could be supportive of the two sectors.

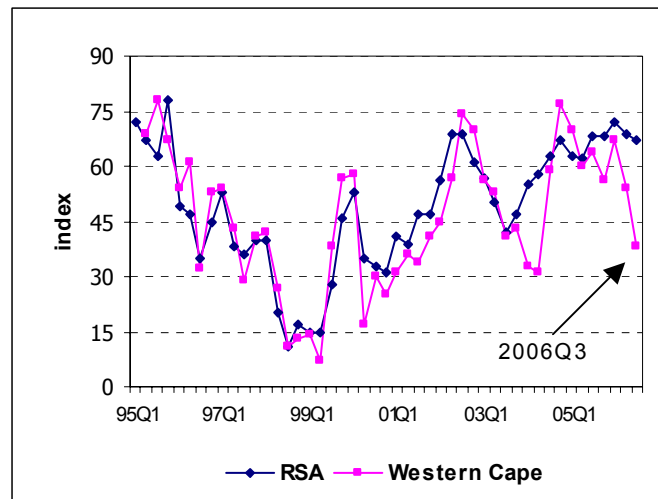
The struggling manufacturing sector

Business confidence

The Western Cape's overall business confidence declined by 14 index points in the third quarter, after peaking during the fourth quarter of 2005. This is contrary to the national picture where business confidence continued to increase during the third quarter of 2006.

The waning business confidence was largely driven by a deteriorating trend in business confidence in the manufacturing sector which declined by 30 index points (see Figure 2.3). Less than 40 per cent of the Bureau for Economic Research's (BER) manufacturing respondents in the region reported satisfactory business conditions during the third quarter.

Figure 2.3: Manufacturing business confidence



Source: BER

According to the respondents, the business confidence was influenced by:

- Skilled labour constraints – the constraint index value increased from 28 to 42 between the end of 2005 and 2006Q3.
- Raw material shortages (17 to 33).
- Higher interest rates (18 to 32).
- The general political climate (16 to 25).

However, it is heartening that regional manufacturers' fixed investment intentions remained positive during the third quarter. Manufacturers' short-term expectations are also relatively upbeat.

However regional manufacturer's fixed investment expectations remain positive

The adverse export situation, which developed between 2003 and 2005, has been slow to improve (see below). We may have to look towards 2007/08 to see a more meaningful recovery in this regard.

Fixed investment spending grew strongly in a number of sectors: construction sector (up 13,2 per cent per annum, 2000-5), community & personal services (10,1 per cent), electricity, gas & water (9,6 per cent), financial & business services (9,4 per cent), internal trade (8,4 per cent), transport & communication (5,8 per cent) and general government (5,7 per cent). Manufacturing fixed investment grew slower by only 3,7 per cent per annum.

Quotas on Chinese clothing imports: Western Cape perspective

The Department of Trade and Industry (DTI) announced in September that it signed a Memorandum of Understanding (MoU) with China to impose quotas on 31 product categories of clothing imports from 2006 to 2008. The MoU would have been effective by 28 August 2006, but retailers, trade unions and analysts received the announcement with mixed reaction.

In the interest of boosting the sector and safeguarding employment, the DTI postponed the implementation date to January 2007 in the spirit of promoting strategic dialogue and cooperation among all stakeholders.¹

While labour unions welcomed the move, retailers felt the decision was hasty, given that they were not able to prepare for the upcoming festive season. Some analysts saw the move to reintroduce quotas as costly for consumers.

The implementation of quotas will have a significant influence on the Western Cape's ailing manufacturing sector, which has a significant concentration of the textile industry. In 2004, textiles as a share of manufacturing output declined to 9,4 per cent, compared to a share of 11,4 per cent in 1995. Most of the leading clothing retailers have their headquarters in the Western Cape, e.g. Woolworths, Foschini and the Pepkor Group.

The quotas are intended to stem the impact of the Chinese cheap clothing imports on South Africa's textile industry, and to prepare local players for competition. Local clothing manufacturers scaled down production, firing the workers in response to tighter competition with China. According to the labour unions, there were about 67 000 jobs losses related to cheap imports from China in the past four years.

Between 2000 and 2005, employment contracted at a rate of 0,4 per cent per annum in the Western Cape.

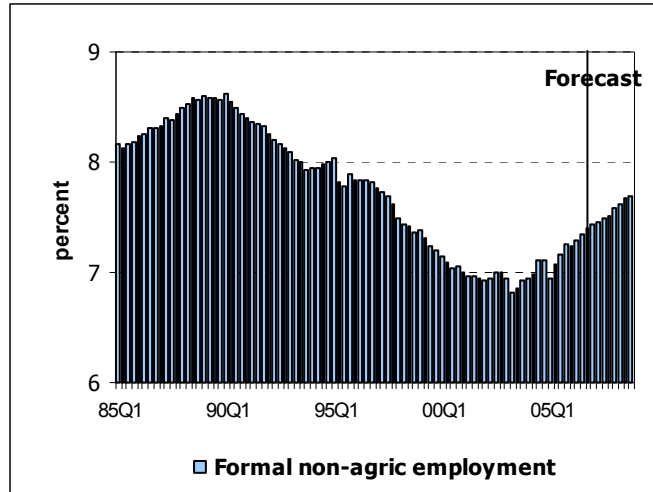
¹ The Department of Trade and Industry, 2006. Extension of deadlines for restrictions for Chinese Clothing. www.thedti.gov.za

Formal employment remains a challenge, particularly for manufacturing and agriculture

Employment

Overall formal sector employment growth remained disappointing, with the agricultural sector retrenching workers on a large scale. Community services and business services also reported declines in employment.

Figure 2.4: Formal non-agricultural employment



Source: SA Reserve Bank / BER

The sectors that reported positive employment growth are: electricity and water; retail and wholesale; construction; transport; communication; and general government. However, this was not sufficient to prevent an estimated contraction of 1,7 per cent in formal sector employment in the region during 2005.

Table 2.2: Real GDP growth of the Western Cape economy: 2000 to 2005

	2000	2001	2002	2003	2004	2005	Ave 2000-2005
GDPR BY SECTOR							
(real % change):							
Agric, forestry & fishing	-2.3	0.8	7.1	-3.6	1.8	2.8	1.1
Mining and quarrying	7.5	-13.4	-1.5	1.7	1.3	-12.0	-2.7
Manufacturing	5.4	2.9	1.6	-2.0	5.3	2.7	2.6
Electricity, gas and water	2.8	-1.9	2.9	11.3	7.2	2.6	4.1
Construction	5.0	-15.8	34.1	0.7	4.5	10.0	6.4
Retail trade & catering	9.9	5.7	1.3	6.8	9.7	8.2	7.0
Transport & communication	7.9	5.8	5.6	7.1	5.2	5.7	6.2
Financial & business services	4.0	9.9	5.3	5.9	5.3	7.1	6.3
CSP services	4.8	2.2	2.4	4.1	1.4	2.5	2.9
General government	-3.2	-0.5	2.2	1.7	0.8	3.6	0.8
Western Cape GDPR	4.4	4.2	4.4	3.6	5.2	5.6	4.6
Services (excl. government)	6.3	7.3	4.0	6.2	6.2	6.8	6.1

Source: Quantec Research

The sectoral composition of the region's growth is likely to change, given that higher interest rates and inflation have a greater impact on retail, construction and financial services.

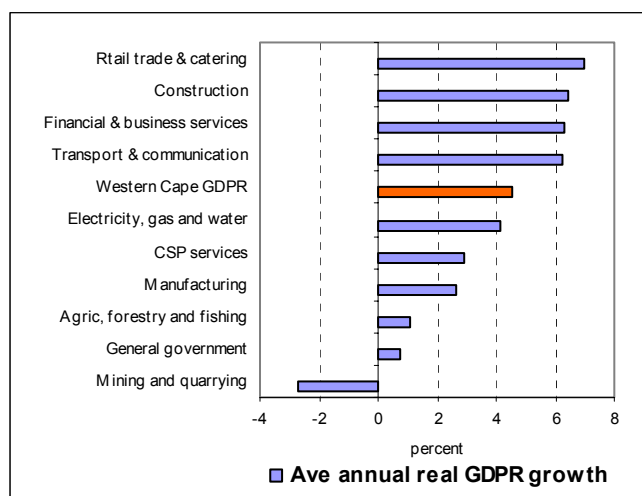
The regional retail sector will be exposed to the anticipated national slowdown. The sector will also feel the impact of interest rate sensitive components of spending and the effect of higher food and energy prices, particularly at the lower end of the market.

The growth momentum is likely to slow in the retail, construction, financial services and property sectors. Yet the manufacturing and agricultural sectors should benefit from the depreciation of the rand.

Sectors sensitive to interest rates likely to experience slow-downs

Both the climatic conditions and the more competitive currency are bolstering the outlook for the Western Cape agricultural sector.

Figure 2.5: Western Cape real GDP growth by sector: 2000 – 2005



Source: Statistics SA

Employment creation continues to disappoint

Formal sector employment creation in the Western Cape economy has lagged behind the rest of the country in recent years. According to estimates by Quantec Research, formal sector employment contracted at a rate of 0,4 per cent per annum between 2000 and 2005 period. This fall compares to positive annual formal sector employment growth of 0,6 per cent nationally over the same period.

The regional sectors responsible for this disappointing employment trend are agriculture (-4,4 per cent per annum over the period from 2000 to 2005), electricity, gas & water (-2,6 per cent), manufacturing (-2,4 per cent), transport & communication (-1,5 per cent), construction (-0,6 per cent)¹ and government (-0,5 per cent).

Government infrastructural investment has strong potential to boost employment creation in the Province

Within the manufacturing sector, retrenchments have been the sharpest in clothing & textiles (employment declining by 6,4 per cent per annum), electrical machinery (-4,1 per cent), wood & paper products (-3,4 per cent), food & beverages (-2,9 per cent) and radio, TV & instruments (-2,6 per cent).

According to the BER's business surveys, the regional employment tendencies are already reflecting the expected change in the pattern of economic growth. The employment situation at factory level is improving, although job growth in construction and retail has tapered off. Strong fixed investment intentions, combined with the government's infrastructure fixed investment activities, should underpin employment creation in the Province.

¹ The declining tendency in construction employment contradicts the robust growth this sector experienced over the 2000-05 period. The statistics probably reflect structural changes in employment practices rather than real retrenchments. It also appears that the declining tendency was arrested during 2005.

Reviving export growth a key regional economic challenge

The regional export growth performance deteriorated sharply in recent years. Compared to the double digit growth in total export volumes over the 1995 to 2002 period, growth decelerated to 2,3 per cent per annum over the 2003 to 2005 period.²

Great need to improve export growth

The deteriorating exports in the manufacturing sector led to a reversal of the Provinces export buoyancy. Real manufacturing exports contracted by 2,5 per cent per annum over between 2003 and 2005 period compared to real growth of 12,5 per cent per annum over the period between 1995 and 2002.

The sharpest reversals in exports were from:

- Transport equipment sector, which declined from growth of close to 40 per cent per annum (1995-2002) to -13,7 per cent per annum (2003-5).
- Clothing & textiles which declined from 8 per cent to -9,6 per cent.
- Non-metal minerals which declined from 19,6 per cent to -5,3%.
- Wood & paper products which declined from 13,4 per cent to -3,4 per cent.
- Petro-chemicals which declined from 24,8 per cent to -0,8 per cent.

The poor export growth can explain many of the problems in the struggling regional manufacturing sector. It also serves to explain the inability of the provincial manufacturing sector to respond positively to the competitive boost provided by the rand's depreciation since May 2006.

² Quantec Research

Nationally, the export response has proved to be slow. However, whereas Western Cape manufacturers were previously more dependent on export growth and less on domestic demand, they may be in a more serious predicament compared to their regional counterparts. It is evident that much will depend on the region's exports and on how strong the recovery in manufacturing conditions will be over the short to medium term.

Table 2.3: Western Cape manufacturing export growth: 1995-2002 versus 2003-2005

Real % change per annum	1995 – 2002	2003 – 2005
Food, beverages & tobacco	10.0	1.1
Textiles, clothing & leather goods	8.1	-9.6
Wood & paper; publishing & printing	13.4	-3.4
Petroleum products, chemicals, rubber & plastic	24.6	-0.8
Other non-metal mineral products	19.6	-5.3
Metals, metal products, machinery & equipment	8.9	7.7
Electrical machinery & apparatus	-6.3	7.2
Radio, TV, instruments, watches & clocks	31.6	26.0
Transport equipment	39.3	-13.7
Furniture & other manufacturing	25.3	1.5
TOTAL manufacturing	12.5	-2.5

Source: Quantec Research

Robust fixed investment spending

Real fixed investment spending in the Western Cape's economy accelerated to 6,6 per cent per annum over the past six years (2000 to 2005) compared to 4 per cent per annum over the decade from 1995.

Fixed investment spending was particularly strong during 2004 (up by 13 per cent) and last year (up by an estimated 11,6 per cent).

The outlook for fixed investment remains bullish as production capacity constraints are expected to underpin capital spending. Major developments include the Cape Town harbour expansion, the construction of the 2010 FIFA World Cup stadiums, and Eskom's capital expenditure on the two new gas-fired power generation plants and a new nuclear power station. Transport infrastructure will also witness a major upgrade. Both public and private sector fixed investment spending are projected to continue growing strongly over the projection period.

Fixed investment to intensify economic activity

While the booming retail, construction and financial services sectors are exposed to the higher level of interest rates, much will depend on the incumbent export recovery in the region to sustain growth and employment creation at a satisfactory pace.

Local government economic performance

The influence of the low inflation and low interest rate environment saw the economic fortunes of the local municipalities riding the wave of the sustained economic upswing. The municipalities with balanced economic bases have somewhat outperformed the provincial growth trends, while those that are heavily reliant on agriculture remain sluggish.

Western Cape economic growth extended to local municipalities, especially the growth nodes

Overall, the forthcoming economic growth revisions due in November 2006 are expected to confirm that the economic growth in 2005 in the Western Cape was robust. The anticipated forecasts should also confirm that this growth was enjoyed by the municipalities of high economic potential outside of Cape Town, e.g. Saldanha-Vredenburg, and the municipalities in the Southern Cape nodes.

Beyond 2005, the national infrastructure drive is expected to further boost economic performance while lending support to regional economies. As a result, those ailing municipalities that have previously found it difficult to grow are facing an increasing challenge to catch up as the pressure to deliver mounts. Nonetheless, they stand to benefit as the accelerated pace of service delivery will not only translate into economic growth, but should boost fixed investment. However, failure to eradicate delivery bottlenecks in the municipalities will undermine the Province's growth prospects.

Infrastructure investment initiatives to boost regional economies and improve service delivery

The recent construction boom in local municipalities has put more pressure on water and sanitation infrastructure. Bulk infrastructure financing has been a priority for municipalities.

Investment in bulk infrastructure to prepare Province for WC 2010

The growing need for bulk infrastructure is exacerbated by the historical infrastructure under-investment. Furthermore, as infrastructure nears the end of its life span, delivery must be speeded up if the Province is to cope with the 2010 FIFA World Cup demands.

In summary, a combination of faster increases in capital expenditure, the increases in the capacity to spend and the timeous implementation of projects would prevent the deterioration in the quality of infrastructure in municipalities.

*Improve
intergovernmental
relations to enhance
service delivery*

The socio-economic profiling of local government emphasises a greater need for advocating evidence-based decision-making within municipalities and transversal government departments. This demands a collaborative approach based on improved intergovernmental relations, which is a pre-condition for driving coherent policies and development strategies. For an effective and efficient service delivery plan, projects must be properly planned and sequenced before their implementation.

*Need to focus
economic and social
development
strategies in under-
serviced areas*

The greatest challenge facing all municipalities in the Province is the mounting evidence of multifaceted deprivation with regard to access to income, employment, health, education and living environment. The most affected people are vulnerable groups living in high density areas, such as Khayelitsha and Mitchell's Plain.

One of the ways of addressing under-serviced areas is to crowd in private sector investment, thereby reducing the concentration of economic activity in already affluent areas. It is also possible to alleviate rural and urban disparities by carefully locating new public projects.

Western Cape outlook

*GDPR growth rate is
expected to reach
5,5 per cent in 2009/10*

Regional GDPR growth is projected to decrease from 5 per cent in 2005/06 to 4,7 per cent in 2006/07. Growth is projected to decline further to 4,2 per cent in 2007/08. Thereafter growth is set to increase in the run-up to the 2010 FIFA World Cup event to 5,5 per cent (2009/10).

The overall economic growth picture remains upbeat, assisted by robust growth in leading services industries and construction. However, employment creation disappointed, largely influenced by the struggling manufacturing sector.

In the future the deterioration in manufacturing business confidence during 2006 is a cause of concern as it signals underlying problems for the labour absorptive sector's ability to create jobs.

Table 2.3 shows that the Western Cape economy expanded by 4,6 per cent on average between 2000 and 2005. This compares to a national real GDP growth rate of 3,8 per cent over the same period.

The growth in the services industries (excluding the government) averaged 6,1 per cent over the corresponding period, with internal trade, i.e. retail, wholesale, catering & accommodation, leading the pack at 7 per cent per annum followed by construction (6,4 per cent), financial & business services (6,3 per cent) and transport & communication (6,2 per cent).

Slow performers were mining (contracting by 2,7 per cent per annum), general government (growing by 0,8 per cent per annum), agriculture (1,1 per cent) and manufacturing (2,6 per cent). The

electricity, gas & water sector grew by 4 per cent per annum and community & personal services by 2,9 per cent - see Table 2.4.

Table 2.4: Outlook for the Western Cape economy: 2006/7 to 2009/10¹

	Ave 2000-2005	2005/6	2006/7F	2007/8F	2008/9F	2009/10F
GDPR (R billion; current prices):	-	226.7	251.7	277.7	307.6	342.6
Real % growth						
GDPR deflator	6.4	5.1	6.0	5.8	5.7	5.6
CPI inflation	5.2	4.2	5.8	5.0	5.4	5.2
GDPR by sector (real % change):						
Agric, forestry & fishing	1.1	2.9	2.8	1.4	1.9	2.1
Mining and quarrying	-2.7	-9.5	-0.4	3.9	2.4	2.0
Manufacturing	2.6	2.8	3.0	2.7	3.5	4.1
Electricity, gas and water	4.1	2.9	3.3	2.8	3.1	3.4
Construction	6.4	10.3	10.6	8.9	9.1	12.4
Retail trade & catering	7.0	7.8	6.2	4.7	4.9	5.5
Transport & communication	6.2	5.7	5.9	6.2	6.5	7.2
Financial & business services	6.3	6.8	5.6	5.2	5.7	6.4
CSP services	2.9	2.8	3.4	2.7	3.4	3.6
General government	0.8	2.9	0.7	1.1	1.7	1.8
Western Cape GDPR	4.6	5.4	4.7	4.2	4.8	5.5

1. Fiscal years ending 31 March

Source: Bureau for Economic Research

Conclusion

The Western Cape economy continued to perform well, but is expected to slow down in line with the anticipated slowdown in South Africa's economy.

The manufacturing sector failed to turn around following the recent weakness seen in the rand. This has resulted in an unchanged outlook for job creation.

Skills and raw material shortages and the political climate adversely influenced the regional economy's outlook.

The key challenges for the regional economy are employment creation and export growth. Over the past five years, agriculture, manufacturing, electricity, gas & water, transport & communication, construction and government were the key sectors responsible for the disappointing employment trend.

In the future, strong fixed investment trends and government's infrastructure will fuel growth. Regulatory agencies will need to take cognisance of the finite capacity of the natural ecosystems, the

Key challenge is to boost export growth and employment creation

Western Cape water and energy constraints, and the impact of climate change.

The economic development process must incorporate both a demand management approach to natural resource use and a life cycle approach to fixed capital investment. Failure to do so will not only undermine long-term growth prospects. It will also result in a lost opportunity to develop new value chains that could stimulate innovation, small business development and the integration of the second economy into the first economy.

Notwithstanding the macroeconomic successes, the pace of human capital investment needs to expand in order to cope with the demands of a growing economy. In addition, proactive strategies to develop the second economy can be an important lever for building an inclusive economy.

In summary, there is a strong imperative for shared economic growth in the Western Cape. However current skills in the Province do not match the needs of the dominant tertiary sector. Furthermore a declining agricultural sector is exacerbating poverty in urban areas, as displaced farm workers migrate to towns. These realities necessitate an increased focus on integrated transport (logistics, freight and passenger) and sustainable human settlements, and greater support for the second economy.

National and Provincial Policy Priorities

Taking its direction from the national AsgiSA objectives, the 2007 WC MTBPS is underpinned by the iKapa Elihlumayo Provincial Growth and Development Strategy (PGDS). The key national priorities of infrastructure investment and skills development are given expression in the Western Cape medium term spending plans. Most of the additional funds available through the equitable share are targeted for personnel-related initiatives in health and education. The drive to improve the quality of and access to social services continues from the 2006 MTEF into current spending plans and is deepened over the medium term.

The theme of infrastructure investment runs from AsgiSA through to the base strategies of the PGDS which aim to give a spatial dimension to the shared growth objectives of the Western Cape. Additional provincial infrastructure conditional grant funds are mainly targeted for Expanded Public Work Programme (EPWP) roads projects.

Introduction

Chapter 2 provided the macro-economic backdrop for the 2007 MTBPS and argued that the overall trend is upbeat, with the Western Cape outperforming the national economy at an estimated 5,6 per cent in 2005. However, formal sector employment is not growing as desired and the agricultural and manufacturing sectors are battling. Yet the health of the service industries and construction sector in the Province is more encouraging. Chapter 3 now analyses the national policy priorities and outlines their relevance in the context of the unique Western Cape economy described in Chapter 2.

Overarching national priorities and imperatives

Accelerated and Shared Growth Initiative-South Africa (AsgiSA)

AsgiSA provides reference point and direction for WC MTBPS

The national target of 4-6 per cent growth in gross domestic product has become a familiar frame of reference and rallying point for the three spheres of government. Last year's Western Cape MTBPS flowed from the national theme of accelerated and shared economic growth; the current 2007 MTEF drives forward and builds on the same parameters.

The Accelerated and Shared Growth Initiative-South Africa (AsgiSA) sets out a two-phase approach. The first phase, 2005-2009, aims for 4,5 per cent growth on average. In the second phase, 2010-2014, the figure is pushed to at least 6 per cent average growth. Given that the Western Cape contributes 14 per cent of the GDP and is home to 10 per cent of South Africa's population, it is incumbent on our province to hit a growth figure at the top end of the target range and for the Cape Town Functional Region to perform at closer to 8 per cent in the medium to long term.

AsgiSA first describes the major factors that are currently holding back the South African economy. These six binding constraints are essentially the bottlenecks which must be unblocked in order for us to achieve higher growth and to share in its benefits. The volatility and level of the currency is the first constraint and is outside the domain of the Province. The high cost and the low efficiency and capacity of the national logistics system is the second constraint. Given that public transport is a shared responsibility of all spheres of government, the provincial government, through investments in public transport and the roads systems, can do much to reduce the cost of moving goods to market and to facilitate the movement of employees to their workplaces.

The AsgiSA document identifies three additional binding constraints which pertain to the labour market and investment climate in South Africa. They are:

AsgiSA identifies binding constraints which hamper economic growth nationally

- Shortages of suitably skilled labour, amplified by the impact of apartheid spatial patterns on the cost of labour.
- Barriers to entry, limits to competition and limited new investment opportunities.
- The regulatory environment and the burden this places on small and medium businesses.

The final binding constraint cited by national government speaks to how government operates internally: the deficiencies in state organisation, capacity and leadership.

AsgiSA sets out six categories of interventions, which are designed to unlock the binding constraints:

1. Infrastructure investment. This includes roads, bulk infrastructure, energy distribution, and housing as well as electronic communications and Information Technology (IT).
2. Sector investment (or industrial) strategies. The two sectors, which will receive top attention, are business process outsourcing (BPO) and tourism. Other high priority potential growth sectors are agriculture and biofuels.
3. Skills and education initiatives. Key measures to address skills in AsgiSA are: quality of education, and Adult Basic Education and Training (ABET), Further Education and Training (FET) colleges and artisan skills.
4. Second Economy interventions. This includes support to SMME's, measures to promote youth development and to encourage women's access to economic opportunities; BBBEE; EPWP and reforms to the regulatory environment.
5. Macro-economic issues.
6. Public administration issues.

*Infrastructure investment
critical component of
AsgiSA*

The President announced in the State of the Nation address that R372 billion is to be spent by government on infrastructure under AsgiSA. The infrastructure projects would be closely monitored to ensure successful implementation of AsgiSA.

It is now incumbent on the provinces to take AsgiSA – a national shared growth initiative—and to give its goals and interventions provincial-specific relevance and content.

Joint Initiative on Priority Skills Acquisition (JIPSA)

The Joint Initiative on Priority Skills Acquisition (JIPSA) is the national government's response to dire skills shortages. As noted by the Deputy President, the skills shortage is not simply one of six binding constraints limiting South Africa's economy; it is *the* potentially fatal constraint.¹ The intention of JIPSA is to untangle blockages and fast-track skills development in areas which are critical to AsgiSA. As a joint initiative between government, labour and business, JIPSA's mandate is to acquire scarce and priority skills in the shortest time possible. The purpose is to clear the systemic logjams which limit the value we can get from our new policies.

¹ Address delivered by the Deputy President, Phumzile Mlambo-Ngcuka, at the launch of the Joint Initiative for Priority Skills Acquisition (JIPSA), Presidential Guest House, 27 March 2006. Available at <http://www.info.gov.za/speeches/2006/06032810451001.htm>.

Skills shortage is important binding constraint to South Africa and WC economy

JIPSA is not a separately funded programme or a new pool of funds available for skills development. Instead, it is an initiative which relies on unlocking monies currently available and attracting further funds from the state, private sector and donors. JIPSA falls within the National Skills Development Strategy (NSDS) - the government's five-year strategy for human resource development - and is simply a short to medium-term mechanism to fast-track the objectives of the NSDS.²

What are the priority and scarce skills, which JIPSA will focus on? First, JIPSA will concentrate on acquiring the skills needed for AsgiSA, which means largely skills needed for the development of infrastructure. Second, JIPSA will focus on skills needed in the two top sectors that AsgiSA cites as priorities: namely, tourism and Business Process Outsourcing (BPO). Added to this, are skills for the other sectors identified in AsgiSA, including agriculture, creative industries, biofuels. To bring this about, JIPSA includes a focus on strengthening poorer schools and supporting maths, science and English language skills in schools. Developing the teachers of these subjects and upgrading the skills of artisans are viewed as priorities.

JIPSA's agenda is taken forward in the Western Cape through the Skills Task Team, which includes leadership from multiple departments. The Skills Task Team will first work to understand the particularities of the skills gap in this Province and to identify our unique education and skills development needs. Through partnerships, the Province will pursue large-scale interventions (such as the Learnership 1000 and Masakh'iSizwe Center of Excellence) to acquire skills for priority sectors, by pursuing education system interventions and increasing skills development opportunities for second chance learners. Chapter 6 provides more details on the skills development interventions undertaken by the Departments of Education, Economic Development, Transport and Public Works, and Agriculture, among others.

Provincial policy imperatives for 2007 MTEF

In keeping with South Africa's cooperative governance principles, provinces are expected to express these national priorities in their provincial budgets. The PGDS is the main document setting out the Province's growth and development agenda and thus is the key reference point for aligning national policy priorities (described above) with provincial spending priorities. The MTBPS hangs on the draft PGDS as its policy anchor.

iKapa Elihlumayo PGDS underpins WC MTBPS

² JIPSA is to be implemented in phases, with the first phase expected to take 18 months and the entire effort to span 3 years.

iKapa Elihlumayo Western Cape Provincial Growth and Development Strategy (PGDS)

The PGDS has its roots in the 2003 Provincial Growth and Development Summit, which set all social partners in the Province – business, labour, government and civil society—on a path towards the vision of a ‘Home for All’. A series of strategies were developed – nine in all – which together formed a package of original iKapa Elihlumayo lead strategies. Those strategies are now familiar, having been launched and moved into implementation during the last two years. In 2005 when the provincial government began developing the PGDS, these iKapa Elihlumayo strategies were used as its core policy base. In essence, the PGDS welds together those original lead strategies, unpacks them, and adds to them. These base strategies are:

- ‘first-generation strategies’ which were essentially the original iKapa lead strategies. These are: Microeconomic Development Strategy (MEDS); Strategic Infrastructure Plan (SIP); Human Capital Development Strategy (HCDS); Social Capital Formation Strategy (SCFS) and Provincial Spatial Development Framework (PSDF).
- ‘second-generation strategies’ which constitute a new layer of strategies which have been developed by various departments: The Scarce Skills Strategy (SSS); the Sustainable Human Settlement Strategy (SHSS); the integrated Law Reform Project (iLRP); and the Sustainable Development Implementation Plan (SDIP).

Coupled with a Western Cape-specific analysis of binding constraints to our provincial economy, these first and second generation strategies are the evidence and policy foundation for the PGDS.

iKapa Elihlumayo describes itself as a strategy for the entire Province, presented through the lens of the provincial government. The Province can influence and drive its implementation by prioritising its own public investment, effectively targeting its developmental spend, and facilitating collaboration between spheres of government and State owned Enterprises (SOEs).

iKapa Elihlumayo PGDS sets out 8 strategic goals:

1. Broadening economic participation.
2. Investing in efficient ‘connectivity infrastructures’.
3. Planning, building and managing effective public and non-motorised transport.
4. Creating livable communities.
5. Fostering resilient and creative communities.
6. Ensuring greater spatial integration.
7. Nurturing a culture of tolerance and mutual respect.

Public transport identified as 'path-breaking' lead intervention of PGDS

8. Creating and protecting effective governance institutions.

A number of **'lead interventions'** will ensure that these goals are achieved. The lead interventions are "big budget public sector project actions with the potential to unlock the developmental path to the Western Cape."³ Integrated transport is put front and centre, as the **'path-breaking' lead intervention**. There is a strong emphasis on the part of government to increase public investment on transport infrastructure to attract foreign and domestic investments and create social and economic spin-offs for local communities.

The **'path-shaping' interventions** are infrastructure and skills projects, which support AsgiSA: The Cape Flats Renewal; the World Cup 2010+; Scarce Skills; Energy and Water; and the MEDS priority sectors. Tourism, BPO/Call Centres, Agriculture and Aquaculture, Oil and Gas, ICT and Creative Industries projects have been identified as leading sectors that need resources as they pose the ability to stimulate economic growth and create employment opportunities. The **'path-consolidating' interventions** form the broader base of the PGDS triangle.⁴ Education and training serve as vital instruments to enable sustainable economic growth and further enhance human development.

Achievement of PGDS strategic goals requires improving efficiency and effectiveness of baseline spending

Implementation of the PGDS will assuredly require coordination, cooperation and joint planning across departments and within clusters. Furthermore the successful implementation of the PGDS depends on the Province's ability to leverage additional resources from other spheres of government, social partners, private sector, and state-owned enterprises. This can be achieved firstly by maximizing the impact of existing allocations by improving efficiency and better co-ordination and governance. Beyond this, the Province will look to raise funds from external sources for the public transport initiatives in particular.

One of the purposes of the MTBPS, as the guiding document of fiscal policy for this 3-year budget cycle, is therefore to demonstrate how the spending priorities set out here support the strategic goals of the PGDS. The PGDS was released as a Green Paper in October 2006, to be debated in a process of public consultation with stakeholders. The document is expected to reach its final form as a White Paper in December 2006 or January 2007. Its release will thus set the policy stage for the 2007/08 Western Cape Budget to be tabled on 6 March 2007.

³ PGDS Green Paper, pg. 79.

⁴ The 'path consolidating' interventions include: MEDS; Safety and security; Human Capital Development; Social Capital Formation; Integrated Law Reform; Burden of Disease; Healthcare 2010; Human Settlement; SDIP; and SIP (bulk infrastructure).

Assessing linkages between the PGDS and the Province's budget is not a matter of simply checking if all PGDS interventions are funded. As noted above, the provincial priorities encapsulated in the PGDS must be balanced and integrated with national priorities. Also, the limited resources available require us to accept the progressive realisation of some policy goals. Finally, we must consider the direct and indirect impact of the Provincial budget. Apart from the direct items or services which the budget buys, expenditure can have secondary indirect impacts which also advance Provincial development objectives. For example, the strategic location of a road can support health objectives by making it more convenient or cheaper for people to access a clinic. When we pick the optimum mix of interventions or services to fund, the whole is greater than the sum of the parts.

Budget must fund right mix of interventions to achieve provincial growth and development aims

Strategic infrastructure priorities

National infrastructure priorities

Since the late 90's the government has prioritised infrastructure delivery. Infrastructure not only gives access to social services, but increases the productivity of the economy, creates economic opportunity and brings poor communities to the mainstream economy. The National Spatial Development Perspective (NSDP) is government's key framework for economic planning. The framework argues that infrastructure investment decisions should prioritise geographic areas with particular economic growth potential while development spending is directed to areas where economic growth has been low. Focusing public infrastructure investment in high growth areas will both boost economic growth in the country as a whole and also allow large amounts of poor people to benefit from that growth.

Infrastructure investment to follow NSDP principles, concentrating on areas with greatest economic potential

There are also potentially significant backward linkages and employment creation spin-offs from public sector infrastructure spending. The employment creation spin-offs can be increased by switching to more labour-intensive construction (LIC) methods and by developing labourers' skills during the construction phases of projects. Introducing more LIC methods and combining that with formal training are the key objectives of the government's EPWP in the infrastructure sector which receive additional resources in this 2007 MTEF.

Infrastructure priorities in AsgiSA

AsgiSA gives renewed emphasis to the importance of infrastructure investment. Infrastructure investment is critical to removing two of the “binding constraints” to shared growth listed above:

- a) the long distances between the places that the poor work and where they reside, which pushes up the price of labour, and
- b) the high cost, and low efficiency and capacity of the national logistics system for moving goods and conveying service across the country.

Infrastructure investment improves connectivity and reduces costs of doing business

AsgiSA calls for sub-national levels of government to use the NSDP to guide their infrastructure investment decisions. For provinces this means channeling their economic infrastructure resources to areas of high economic potential, including housing subsidies, and supporting municipalities to plan and install infrastructure at appropriate levels of service.

Achieving human settlements with higher densities and where social groups and land uses are more integrated is also critical for enhancing shared growth. The national government’s Breaking New Ground (BNG) policy provides guidance to policy makers and planners for improving the internal structure of human settlements.

AsgiSA also calls for linking areas of high production to large markets. Investment in the provincial road network is crucial for improving freight and service logistics in the provinces.

The current regulatory framework for the public authorisation of new infrastructure investment and spatial developments hampers investment. Both public and private developers incur high compliance costs and have to wait for long periods to get some decisions. Often poor decisions are given.

Labour-intensive methods enhance social, economic spin-offs of infrastructure spending

AsgiSA is seeking to scale up the impacts of the EPWP in infrastructure by increasing expenditure on roads and expanding the use of LIC methods in maintenance and construction from minor gravel roads into more major gravel roads and some tarred roads. Provincial road agencies have to strive to increase periods of employment and increase the development of small black contractors. As noted below in Chapter 6, additional conditional grant funds will flow to provinces in the 2007 MTEF to support EPWP roads projects.

The government sees the relatively low capacity of the current construction industry and shortage of skill at all levels in the sector as a real constraint to investment expansion. Making public infrastructure spending more predictable and developing small construction contractors are measures that can be used to address the constraint in the medium to long term.

Provincial infrastructure priorities

The Provincial Growth and Development Strategy (PGDS) and its associated 'first and second generation strategies' respond to a number of the national infrastructure priorities.

PGDS Base Strategies	How the strategies respond to national priorities
Provincial Spatial Development Framework (PSDF)	The PSDF provides a more refined framework for the spatial distribution of capital investment in the Western Cape. The Framework shows how investment can improve the structure of the space economy of the Province. The Framework also gives strong indications of the natural areas in the Province that the government needs to preserve in order to protect habitat and natural cycles that are critical for human settlement e.g. water cycle.
Strategic Infrastructure Plan (SIP)	The SIP, in its current draft, describes the infrastructure initiatives of a number of the public infrastructure agencies active in the Province. The SIP considers how these initiatives can be better co-ordinated to enhance shared growth, and identifies which initiatives require support from across government.
PGDS Second Generation Strategies	How the strategies respond to national priorities.
Sustainable Human Settlement Strategy (SHSS)	The SHSS details what needs to be done to change the way settlements are built in the Province so that residents are closer to economic opportunities and neighbourhoods are more convenient and safe.
Integrated Law Reform Project (iLRP)	The iLRP is aimed at streamlining decision-making on land development by re-engineering the legal framework in the Province.

PGDS strategies link to national infrastructure priorities

Effective integration of public transport depends on intergovernmental cooperation

As noted above, the PGDS highlights the importance of investment in transport infrastructure and operating systems and designates it as its single 'path breaking' strategy. Transport infrastructure and operations need to be seen as an integrated system in which public, private and non-motorised modes work together to provide access as efficiently as possible. But efficiency is not the only important criterion; efficiency must be balanced with the direct employment creation benefits in the sector. In developing integrated transport, the Province needs to realise that it has limited power. It shares the responsibility of public transport provision with local and national government - mainly in the form of SOEs - in complicated ways. Key parts of the Province's road and freight network are nationally managed. The Province only has unfettered discretion over the provincial road network.

FIFA World Cup 2010

FIFA WC2010 is an integral part of the AsgiSA initiative and also a significant aspect of our strategic infrastructure priorities, both nationally and provincially. The construction of stadiums is just one aspect of World Cup 2010 preparations. Using the event as a catalyst, the government is planning strategic investments in public transport, sports development, communications, safety and security, and tourism promotion to move us towards larger national goals for 2014, while satisfying 2010 needs along the way.

2010 preparation extends far beyond stadium construction

Visitors will require transport from their accommodation to the stadiums, fan parks, training venues and tourist sites. This surge of transport demand in the host cities during the event in 2010 can be used to stimulate investment in transport infrastructure, especially public transport.

A number of key national departments have signed binding guarantees to FIFA with regard to having the required economic infrastructure (especially related to transport, security, communications and entry into and exit out of the country). These Departments include Transport, Communications, Home Affairs and Safety and Security. The eight Host Cities, including Cape Town, also signed detailed agreements with FIFA and the Local Organising Committee (LOC). The National Treasury has developed a Funding Protocol which sets out the multiple projects which must be undertaken, who will be primarily responsible for each, and the associated funding channel.

Provincial role in 2010 centres on transport, EMS, tourism and sport development

Although the Province did not sign guarantees, it will have an important role in 2010 in four key areas: transport, health, sport and recreation, and tourism. Provinces share the responsibility for transport (fixed and commuter) projects with South African Rail Commuter Corporation (SARCC), the National Department of Transport, Airports Company of South Africa (ACSA), South African

National Roads Agency Limited (SANRAL) and the City of Cape Town.

Emergency medical services are a primary responsibility of the Province and will need to be significantly enhanced to support the influx of visitors for the event, in terms of its scope, quality and response times. Disaster Management and Tourism are other competencies which take on particular importance in preparation for 2010 FIFA World Cup. The 2010 FIFA World Cup demands on Disaster Management as well as Tourism projects and infrastructure receive funding in the 2007 MTEF, as also discussed in Chapter 6.

In the Western Cape, the Provincial government and the City of Cape Town will need to cooperate closely to promote this region to national and international markets to attract trade, investment and tourism. With effective planning and cooperation, the event can be used to create more work opportunities and shape a lasting economic and social impact.

The Green Point area has been selected as the site for the new Cape Town Stadium, to host the 2010 FIFA World Cup matches and provide a sustainable multi-use sports event facility for the City into the future. The City would like the stadium to remain functional after the World Cup and would thus like additional infrastructure to be developed which would enable it to be used after 2010.

Construction of Greenpoint Stadium relies on national, provincial and Metro financing

Completed at the end of October 2006, the revised business plan for the stadium reduces the costs to R2,49 billion (excluding VAT). Funds for stadia development will flow directly to Host Cities via a conditional grant from National Government. Funds from national sources as well as the City's budget will be supplemented by a R112 million commitment from the Province for the construction of the Cape Town stadium.

Accessibility to and from the stadium requires elaborate planning for the upgrade of the existing transport infrastructure and is crucial for the success of the event. To ensure that the public transport infrastructure can accommodate the surge of demand around the event, public transport systems along selected key corridors and nodes require huge improvements before 2010. The Public Transport Infrastructure Fund (PTIF) run by the National Department of Transport, will be the main vehicle for funding large public transport infrastructure at the provincial and municipal levels. These plans for Cape Town are further detailed in Chapter 6.

Significant injection for public transport infrastructure to prepare Cape Town as host city

Additional allocations over baseline for key policy priorities

At a national level, a total of R80 billion in additional funds is made available over the 2007 MTEF. The bulk of those funds will be used to prepare South Africa for 2010 FIFA World Cup, strengthen the criminal justice system, up-scale investments in the built environment, and drive human development interventions.

Nationally, over the 2007 MTEF an amount of R18,6 billion is added to the baseline of the Provincial equitable share (PES). An additional R9,6 billion is added to the conditional grants over the 2007 MTEF to expand housing, step up infrastructure investment at provincial level, boost hospital revitalization and HIV and Aids programmes. The net effect is that national transfers to provinces will increase 11,6 per cent per year over the MTEF. These additional funds to the provinces, particularly the greater-than-inflation increases, are intended to provide more room in the baseline for attention to provincial-specific priorities.

2007 WC MTBPS builds on national priorities from previous MTEF

The 2007 MTEF builds on last year's planning. Those national priorities identified in the 2006 MTEF were ring-fenced as earmarked allocations in Western Cape provincial department budgets, for spending in 2006/07, 2007/08 and 2008/09, and thus will carry through in the baseline. Thus a number of key national priorities for the 2007 MTEF are already provided for in the Western Cape budget.

Social Sector

In essence, the additional PES funds in the 2007 MTEF are intended for priority areas in social development, education and health, and to ratchet up support to economic functions, which feed into AsgiSA. In particular, national government is showing a keen interest in addressing human resource issues in the social sector, and the need to increase salary levels and decrease vacancies.

Large boosts for remuneration for health and education professionals

In the **Education** sector there is a key push to allocate funds for education personnel, initially targeting school managers and providing administrative support in schools. The remuneration packages of school managers are to be scaled up and gradually over the MTEF, the remuneration increases will be extended to other categories of educators.

School managers targeted

The quality improvement programmes introduced in the 2006/07 Budget are also stepped up, as national government moves to reinforce the overarching goal of improving the quality of education, and teaching specifically. In line with JIPSA and the drive to increase the supply of scarce skills which are priorities for economic growth, PES funds are targeted for improving the quality of teaching in the areas of maths, life orientation, and Grade R. In-service training and

development programmes for teachers in these areas will receive a boost.

Also linked to the aim of improving education quality, PES funds are to be made available for provinces to conduct systemic evaluation. Instead of relying on national research, these funds allow the provinces to assess educational outcomes of learners. This enables provincial departments to determine where the needs in the system are so that better targeted and more effective interventions can be rolled out in areas most needing support.

Emphasis on improving quality of education continues in 2007 MTEF

Apart from PES funds intended for the national education priorities described above, national government is also making further funds available for bursaries for FET college students.

Similar to the education sector, the majority of the funds intended for the **Health** sector are also targeted for personnel, specifically the implementation of the Health Professional Remuneration Review and the creation of additional posts for health professionals. Given the crisis in attracting and retaining professionals in the public health sector, government is taking this step to reduce the drain and address the shortages. Government is looking to improve conditions of service for professional health workers, as part of a plan to add 30 000 health personnel to the public sector over five years. The first priority is improving the pay of nurses. The intention is then to gradually extend the move to doctors and other types of health professionals: doctors, dentists and pharmacists in the second year and other professional groups (including physiotherapists and occupational therapists) in the third year.

Nurses prioritised for pay increases

As part of preparations for the hosting of 2010 FIFA World Cup, funds are added to the equitable share to boost Emergency Medical Services. The sector is targeting shorter response times, improved communication systems, the replacement of old emergency vehicles, the extension of aero-medical services and the training of additional basic ambulance assistants.

Boost to emergency medical services leading up to 2010

Apart from the additional PES funds targeted for these national health priorities, additional funds are allocated to augment the Hospital Revitalisation Conditional Grant and the National Tertiary Services Grant. These funds will be used to finance the acquisition of radiology and oncology equipment. Furthermore, the conditional grant for implementation of the Comprehensive HIV and Aids Grant is augmented to extend the coverage of programme, including HIV and Anti-retroviral (ARV) treatment.

Thirdly, additional funds are channeled through the provincial equitable share for two priority areas in the **Social Development** sector. In keeping with the push on social services personnel, the funds are firstly targeted for the employment of social auxiliary workers who are qualified to perform some tasks of a regular social

Social Auxiliary Workers recruited to relieve burden of social workers

R635 million over MTEF for improved remuneration for health and education personnel

R327 million over MTEF for Western Cape economic priorities

Provincial Legislature receives additional funds for constituency allowance

worker, thus relieving the burden on social workers. The aim is for in-service training and further studies to prepare some of the social auxiliary workers to becoming full-fledged social workers. The second priority area in social development is substance abuse and the implementation of the National Drug Master Plan. The funds are made available to cover infrastructure needs and equip rehabilitation centers. Finally, nationally support to children's homes is targeted.

In the Western Cape, the personnel-related initiatives described above for the Education, Health and Social Development sectors will receive the majority of the new PES funds made available over the 2007 MTEF. Approximately R635 million over the MTEF will be targeted for the implementation of the Health Professional Remuneration Review and improved remuneration for educators.

Another R324 million is to be made available for the other personnel-related priorities in the social sector, including teacher development, administrative support in schools, FET college bursaries, social auxiliary workers and additional posts for health professionals.

The other related interventions which aim to directly improve the quality of services together will receive R166 million over the 2007 MTEF.

Economic sector

An amount of R3,7 billion is channeled via the PES for the national priorities in health, education and social sector enumerated above. The balance of the additional funds made available over the 2007 MTEF is intended for **other provincial-specific economic functions**. National government particularly targets economic functions which support job creation, including roads, agriculture, tourism, and SMME development. In the Western Cape, R327 million is made available over the 2007 MTEF for specific economic priorities, as detailed further in Chapter 6.

As an further note, the Western Cape Provincial Legislature will receive an additional R13,339 million over the 2007 MTEF to increase the constituency allowance payable to political parties.

Conclusion

The national and provincial policy context outlined above suggests three key points. First, the 2007 MTEF is very much a continuation and deepening of key themes set out in the previous 2006 MTEF. Improving the quality of education and health care, as well as extending access to social services, were paramount themes in the 2006 MTEF and are reinforced in the 2007 MTEF. Also, attention to improving government's capacity to deliver shows up clearly again in government policy priorities.

The second point is that AsgiSA and infrastructure investment are ascribed great importance in the 2007 MTEF, catalysed by the immediate need to establish adequate infrastructure for 2010 FIFA World Cup. The PGDS reinforces this priority by fore-fronting 'integrated transport' as its 'path-breaking' lead intervention. The need to address backlogs in bulk infrastructure also becomes apparent from the local government socio-economic profiling work described in Chapter 2.

Thirdly, JIPSA, AsgiSA and PGDS all put skills development and training front and centre. A wide range of sectors, departments, and stake-holders are being encouraged to promote learnerships, training, and work opportunities in various fields, as part of a national 'skills revolution'.

These policy imperatives, particularly preparation for 2010 FIFA World Cup, place enormous demands on the national fiscus. The next chapter analyses the funding available to the Western Cape to pursue the policy priorities outlined above. The resource envelope is tight in 2007 MTEF due to cuts in the projected equitable share revenue. Chapter 4 will detail the revenue envelope available and the related trends and developments which impact on our budgeting decisions.

Three key themes of MTBPS are strategic economic infrastructure, skills development, and improving quality of social services

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The Revenue Envelope and Financing Issues

Largely due to increases in national transfers, the resources available to the Western Cape are projected to grow at an average annual rate of 9,5 per cent over the 2007 MTEF. However the Western Cape share of the total equitable share fund drops to 8,798 per cent over the 2007 MTEF, due mainly to downward revisions in provincial population estimates. Although 82 per cent of national transfers to the Western Cape are channelled through the equitable share, these funds are increasingly targeted to national priorities, thus limiting the funds available for provincial-specific concerns.

The Western Cape aims to increase its scope for deciding on its own spending priorities by expanding the sources of revenue that it collects. Income from vehicle license fees, the Province's largest source of own revenue, is forecasted to slow down over the medium term, causing provincial own revenue to grow very minimally at an average annual rate of 1,8 per cent. However the introduction of the fuel levy in 2008/09 is expected to partially compensate and enable continued funding for roads.

The priorities described in the preceding chapter will be financed via three main sources: transfers from national government (including equitable share and conditional grants) which together form 88,4 per cent of the budget in 2006/07; provincial own receipts (taxes and fees) which contributes 8,3 per cent; and the Asset Financing Reserve (AFR) which contributes the remaining 3,4 per cent in 2006/07.

Table 4.1: Fiscal Framework of the Western Cape

Source	2006/07	2007/08	2008/09	2009/10	
R'000	Adjusted Budget	Medium Term Estimates			Ave Annual Growth Rate 06/07-09/10
Equitable share	13 459 403	15 117 707	16 898 432	18 689 301	11.56%
Conditional grants	2 947 729	3 403 177	3 731 824	4 040 876	11.09%
Transfers from National	16 407 132	18 520 884	20 630 256	22 730 177	11.48%
Own revenue	1 537 304	1 561 091	1 602 111	1 597 047	1.28%
Asset Financing Reserve	625 936	290 294	300 000		-
Total	18 570 372	20 372 269	22 532 367	24 327 224	9.42%
Contingency reserve		55 000	60 000	65 000	-

Percentages					
Equitable share	72.48%	74.21%	75.00%	76.82%	
Conditional grants	15.87%	16.70%	16.56%	16.61%	
Transfers from National	88.35%	90.91%	91.56%	93.44%	
Own revenue	8.28%	7.66%	7.11%	6.56%	
Asset Financing Reserve	3.37%	1.42%	1.33%	0.00%	
Total	100.00%	100.00%	100.00%	100.00%	
Contingency reserve		0.27%	0.27%	0.27%	

National transfers to WC set to grow an average 11,5 per cent each year over 2007 MTEF

Transfers from National

Table 4.1 above shows that estimated transfers of nationally raised revenue to the Western Cape Provincial Government grow at an annual average rate of 11,5 per cent in nominal terms or R6,32 billion over the 2007 MTEF. Transfers increase from R16,41 billion in 2006/07 to R18,52 billion in 2007/08 and are expected to rise to R22,73 billion in 2009/10.

Equitable share

The provincial equitable share (PES) on average makes up 74,8 per cent of the total Provincial Budget over the 2007 MTEF. The PES is an unconditional transfer allocated to the Province according to a formula. The formula includes the following six components (with weights included in brackets):

- An education component (51 per cent) based on school age cohort and school enrolment data.
- A health component (26 per cent) based on the proportion of the population with and without medical aid (at a ratio of 1:4).
- A basic component (14 per cent) derived from each province's share of the national population.
- A poverty component (3 per cent) included to reinforce the redistributive function of the formula.

- An institutional component (5 per cent) divided equally between provinces to fund institutional requirements of provinces.
- An economic activity component (1 per cent) based on Gross Domestic Product per Region (GDPR).

Both the National and Provincial Governments are concerned about the responsiveness of the formula to the changing needs and priorities of government. In the medium term, Government is planning to fundamentally review the formula.

The Western Cape is further concerned with the increasing limitations that are placed on PES transfers. Chapter 3 noted that, for the 2007 MTEF, the bulk of transfers are allocated as 'non-discretionary', particularly as compensation of employees, to the social sector (Departments of Health, Education and Social Development). The remaining portion is allocated as 'discretionary'.

Equitable share includes non-discretionary funds for national priorities

The extra non-discretionary PES funds provided by the National Treasury give provinces more room in their budgets to cover nationally defined policy priorities – mainly human capacity constraints in health, education and social development. Spending the equitable share on these priorities, however, means less space for the Province to address Provincial-own priorities, or to adapt delivery programmes to the Provincial context.

The National Treasury has retained the current basic structure of the 2006 allocation formula to divide resources between provinces over 2007 MTEF, but has revised the formula in a number of ways.

Formula components were adjusted to take account of the demarcation of provincial boundaries and the release of updated official data, i.e. the General Household Survey (GHS) 2005, 2006 school enrolment numbers and GDPR 2004 figures. In addition, the Budget Council has agreed to discontinue the use of moving averages and the phasing in of new provincial shares. This Chapter discusses each revision in detail below.

Demarcation of provincial boundaries

The PES formula has been adjusted to take account of the disestablishment of cross boundary municipalities. The Western Cape has not been affected by the demarcation of provincial boundaries, and the changes do not therefore impact on the Western Cape's equitable share allocation.

PES formula adjusted to reflect new provincial boundaries

The use of moving averages

Previously, weighted averages were used in the PES formula for two reasons. Firstly, to limit data fluctuations within the formula. Secondly, in the case of population data, averages allowed allocations to be weighted back to the more reliable and robust Census 2001 data.

Use of moving averages discontinued

The Budget Council¹ discontinued the use of moving averages in the PES formula in its 2006 review for two reasons. Firstly, using moving averages of annual population data means that inter provincial migration is not properly accounted for. Secondly, it is difficult to accurately rework historical information when demographic variables are re-benchmarked, as occurred with the GHS data. Carrying through the re-benchmarking to historical information reduces the robustness of the PES formula.

Data revisions

For the 2007 Budget, the Budget Council has agreed to the update of official data in the formula. These updates relate to 2006 school enrolment data, GHS 2005 and GDP-R 2004 data. Further, mid year estimates replace the use of GHS data in the basic and poverty components. Table 4.2 displays the impact of these data revisions on the Western Cape component shares.

Table 4.2: Changes in PES component shares

	Weight	2006 MTEF	2007 MTEF	Variance
	%	%	%	
Education	51	8.2125	8.2099	-0.0026
Health	26	9.2384	9.2190	-0.0194
Basic	14	10.0642	10.0135	-0.0507
Poverty	3	3.7765	3.7643	-0.0122
Institutional	5	11.1111	11.1111	0.0000
Economic activity	1	14.4685	14.3808	-0.0877
Final share	100	8.8143	8.7982	-0.0161

Firstly, 2006 school enrolment data is used to update the education component. Provincial Departments of Education conduct the SNAP survey on the tenth school day of each year to determine school enrolment numbers. Results of the SNAP survey show that school enrolment in the Western Cape decreased from 979 576 in 2005 to 978 826 in 2006. As a percentage of national enrolment, the Western Cape's share has decreased by 0,1 per cent over the period. The overall impact of this change, together with the discontinuation of the use of moving averages, is a reduction in the Western Cape's share of the education component from 8,2125 per cent to 8,2099 per cent.

New education and population data used to update PES formula

¹ The Budget Council consists of the Minister of Finance and the MECs for Finance of each province.

Secondly, GHS 2005 data replaces the use of average historical GHS data in the health component. The results is a 0,02 percentage point reduction in the Western Cape's share of the health component from 9,24 per cent in the 2006 MTEF to 9,22 per cent in the 2007 MTEF.

Thirdly, the Western Cape's contribution to national Gross Domestic Product has decreased from 14,5 per cent as per the GDP-R 2003 data to 14,4 per cent as per the GDP-R 2004 data. This decrease results in a 0,01 percentage point reduction in the economic activity component from 14,47 per cent in the 2006 MTEF to 14,38 per cent in the 2007 MTEF.

Finally, in 2004, StatsSA re-benchmarked² GHS data to take account of the mortality data obtained from administration records of the Department of Home Affairs. The re-benchmarking resulted in reductions to both the national and provincial population estimates.

The Western Cape's share of the estimated national population decreased from the 10,2 per cent level gleaned from the pre-benchmarked GHS 2003 data to a figure of 9,8 per cent given by the re-benchmarked GHS 2004 data. Periods prior to 2004 have since been re-benchmarked and the Western Cape now shows an increasing trend in its share of total national population. GHS 2005 estimates put the Western Cape's share at 9,9 per cent.

The 2006 MTEF calculations used the average of Census 2001, original GHS 2002 and 2003 data, as well as the re-benchmarked GHS 2004 data to determine population shares. The average suggests that an estimated 10,06 per cent of the national population resides in the Western Cape.

In the 2007 MTEF, mid-year population estimates replace GHS data in the basic and poverty components. The 2006 mid-year population estimates put the Western Cape's share of the national population at 10,01 per cent. The use of the mid-year estimates together with the discontinued use of moving averages reduces the basic component by 0,05 percentage points. The same combination of factors reduces the poverty component by 0,01 percentage points from 3,78 per cent over the 2006 MTEF to 3,76 per cent over the 2007 MTEF.

2006 mid-year population estimates indicate WC share of national population is 10,01 per cent

Table 4.2 above shows the combined effect of the data revisions, the use of mid-year estimates in place of GHS data and the discontinued use of moving averages on the Western Cape's share of formula components. Although the Western Cape is not affected by the demarcation of provincial boundaries, data revisions have resulted in

² A distinction is drawn between rebasing (which suggests that a change in the reference year is agreed), and re-benchmarking (which suggests that the methodology and components of a statistical unit has been changed).

the Province's overall share of the PES decreasing by 0,02 percentage points from 8,8143 per cent in 2006.

Phasing-in of new provincial shares

The revised PES formula reduces the Western Cape's equitable share. In previous years, revised shares were phased in over a period of three years to avoid disruptive adjustments in provincial allocations and to ensure stability in provincial budgets.

Given that the demarcation of provincial boundaries has resulted in substantial shifts in the expenditure responsibilities of seven of the provinces, in particular with regard to schools, clinics, hospitals, roads and other public facilities, the new provincial shares will not be phased in over the 2007 MTEF. Instead the new shares will be implemented with immediate effect to ensure that the affected provinces receive the funding required to fund their new expenditure needs.

This decision has negative implications for the Western Cape as it means that the impact of the revised data and the discontinuation of the use of averages are to be implemented with immediate effect. The resulting allocations for 2007/08 and 2008/09 are lower than would have been the case had the new shares been phased in.

Revised PES formula negatively impacts WC equitable share

2007 MTEF allocations (as presented in the 2006 Budget) put transfers to the Western Cape at R14,91 billion, R16,55 billion and R17,79 billion in 2007/08, 2008/09 and 2009/10 respectively.

Table 4.3 below shows that taking the above revisions into consideration and before adding any additional amounts to the baseline, the Western Cape's equitable share allocation decreases by R102,44 million in 2007/08, R32,83 million in 2008/09 and R35,29 million in 2009/10.

Table 4.3: Comparison between 2006 and 2007 MTEF allocations

	2006/07	2007/08	2008/09	2009/10
2006 MTEF	13 459 403	14 906 049	16 546 427	17 787 409
2007 MTEF (demarcation and data revisions)	13 459 403	14 803 613	16 513 600	17 752 120
Difference		(102 436)	(32 827)	(35 289)
2007 MTEF final allocations	13 459 403	15 117 707	16 898 432	18 689 301
Difference	-	211 658	352 005	901 892

The National Government has, however, increased the national PES allocation to all provinces over the 2007 MTEF by R18,59 billion. The extra funds are spread across MTEF with R3,57 billion being allocated in 2007/08, R4,37 billion in 2008/09 and R10,65 billion in 2009/10.

R1,47 billion added to WC equitable share over 2007 MTEF

The overall impact of both data revisions and increased baselines is a R1,47 billion net increase in the Western Cape's PES allocation over

the 2007 MTEF. R211,66 million of the extra funds are transferred in 2007/08, R352,01 million in 2008/09 and R901,89 million in 2009/10.

The final PES allocations to the Western Cape therefore amount to R15,12 billion, R16,90 billion and R18,69 billion in 2007/08, 2008/09 and 2009/10 respectively.

Conditional grants

On aggregate, conditional grant transfers to the Province are estimated to increase from R2,95 billion in 2006/07 to R3,40 billion in 2007/08, R3,73 billion in 2008/09 and R4,04 billion in 2009/10. Conditional transfers account for on average 16,5 per cent of the total Provincial budget over the 2007 MTEF.

*WC to receive
R3,4 billion in conditional
grant funds in 2007/08*

As described above, revisions made to the PES formula over the 2007 MTEF have resulted in a reduction in the Western Cape's overall equitable share. Conditional grants that make use of PES data in their allocation formulae therefore decreased accordingly. The affected grants include the Provincial Infrastructure Grant (PIG), the Mass Sport and Recreation Participation Programme and the HIV and Aids (Life Skills Education) Grant.

No new conditional grants were added to the conditional grant framework for the 2007 MTEF. The National Government has, however, increased the national conditional grant allocations to all provinces over the 2007 MTEF by R8,07 billion.

Table 4.4 shows that of the R8,07 billion baseline adjustment, the Western Cape projects that R805,00 million will be transferred to the Province over the 2007 MTEF. Of this amount, R252,06 million is transferred through the Integrated Housing and Human Settlement Development Grant (IHAHSD), R270,91 million through the PIG and R128,92 million through the National Tertiary Services Grant (NTSG). The remaining R153,11 million is transferred through the Hospital Revitalisation Grant, the Comprehensive HIV and Aids Grant and the Mass Sport and Recreation Participation Grant.

Table 4.4: Revisions to conditional grant baseline allocations for the 2007 MTEF

Grant R'000	2007 MTEF baseline adjustments		Revisions to baseline		
	National	Provincial	2007/08	2008/09	2009/10
Integrated Housing and Human Settlement	1 220 000	252 058	28 290	106 748	117 020
Provincial Infrastructure Grant	4 290 000	270 910	60 428	81 134	129 348
National tertiary services	550 000	128 923	25 117	50 437	53 369
Hospital revitalisation	1 000 000	76 086	12 640	18 780	44 666
Comprehensive HIV and Aids	750 000	56 031	7 380	14 760	33 891
Mass Sport and Recreation Participation Grant	255 000	20 996	3 506	7 458	10 032
Total	8 065 000	805 004	137 361	279 317	388 326

Additional R271 million in provincial infrastructure grant funds for Western Cape over 2007 MTEF

The framework for the PIG allows for the grant to be split between the Departments of Transport and Public Works, Education, Health and Agriculture for the rehabilitation and maintenance of new and existing infrastructure. However most of the new monies will be used for roads. To relieve the administrative burden of the grant upon the Department of Agriculture, the Provincial Treasury will no longer allocate PIG funds to the Department and will fully cover the shortfall using PES funds.

Table 4.5 sets out the Provincial Treasury's projected national conditional grant transfers to the Western Cape. These projections are based on the assumption that baseline revisions will be allocated according to the current allocation formulae and that the 2009/10 allocations will grow at the same rate as the national aggregate for that particular grant.

Table 4.5: Conditional Grants Framework 2006/07 - 2009/10

Source R'000	2006/07 Budget	2007/08	2008/09	2009/10
		Medium Term Estimates		
National Tertiary Services Grant	1 272 640	1 347 861	1 439 318	1 521 416
Integrated housing and human settlement development	598 800	776 838	929 174	1 087 400
Health professions training and development	323 278	339 442	356 414	374 235
Hospital revitalisation	149 703	120 537	143 024	163 170
Provincial infrastructure (Transport and Public Works)	126 329	251 319	284 645	344 129
Comprehensive HIV and AIDS	115 670	128 834	142 845	167 983
Further education and training college sector recapitalisation	70 000	80 000	77 305	
Forensic pathology services	68 605	79 425	55 535	50 136
Provincial infrastructure (Health)	61 829	80 262	85 880	94 468
Provincial infrastructure (Education)	61 829	80 263	85 881	94 469
National school nutrition programme	48 313	50 729	53 220	56 892
Comprehensive agriculture support programme	20 648	33 426	35 030	38 533
Mass sport and recreation participation programme	12 100	18 516	26 833	30 376
HIV and AIDS (life skills education)	11 870	12 454	13 292	14 072
Land care: Poverty relief and infrastructure development	3 115	3 270	3 428	3 599
Provincial infrastructure (Agriculture)	3 000			
Total projected conditional grants	2 947 729	3 403 177	3 731 824	4 040 876

* *Conditional grant allocations are provisional and will be finalised once allocation letters are received from National Treasury.*

Table 4.6 below shows departmental shares of conditional grant transfers. The Department of Health receives the bulk of grant transfers and its share of total conditional grant transfers is projected to decrease from 67,6 per cent in the 2006/07 budget to 58,7 per cent in 2009/10. The Department of Local Government and Housing follows with 20,3 per cent of total transfers in the 2006/07 budget, projected to increase to 26,9 per cent in 2009/10. The remaining transfers are allocated to the Departments of Education, Transport and Public Works, Agriculture and Cultural Affairs and Sport.

Most conditional grants flow to Departments of Health and Local Government and Housing

Table 4.6: Conditional grant departmental transfers

Department	2006/07	2007/08	2008/09	2009/10
R000's	Budget	Medium Term Estimates		
Health	1 991 725	2 096 361	2 223 016	2 371 406
Local Government and Housing	598 800	776 838	929 174	1 087 400
Education	192 012	223 446	229 698	165 433
Transport and Public Works	126 329	251 319	284 645	344 129
Agriculture	26 763	36 696	38 458	42 132
Cultural affairs and sport	12 100	18 516	26 833	30 376
Total projected conditional grants	2 947 729	3 403 177	3 731 824	4 040 876
Percentage				
Health	67.57%	61.60%	59.57%	58.69%
Local Government and Housing	20.31%	22.83%	24.90%	26.91%
Education	6.51%	6.57%	6.16%	4.09%
Transport and Public Works	4.29%	7.38%	7.63%	8.52%
Agriculture	0.91%	1.08%	1.03%	1.04%
Cultural affairs and sport	0.41%	0.54%	0.72%	0.75%
Total	100.00%	100.00%	100.00%	100.00%

Provincial Own Sourced Receipts

Provinces raise an insignificant amount of revenue compared to their expenditure needs. Most revenue collection happens at national level while expenditure is decentralised to provinces and local governments. Under this system, national government controls the revenue sources with broad bases, while provinces only have access to narrow-based taxes and a few user fees.

Provincial own revenue to increase by 1,3 per cent over the 2007 MTEF

Table 4.7 below shows the estimated contributions of the Departments to Provincial Own Receipts and the specific changes to the baseline per financial year over the 2007 MTEF.

In aggregate, Provincial Own Receipts are projected to increase by 1,3 per cent over the medium term from R1,54 billion in 2006/07 to R1,60 billion in 2009/10.

The Provincial Treasury and the Department of Local Government and Housing are the only two departments that indicated major changes to the 2006 MTEF baseline budgets. The changes to the Provincial Treasury baseline are a result of the estimated increases in gambling tax receipts. The changes to the baseline of the Department of Local Government and Housing are mainly due to the implementation of the Enhanced Discount Benefit Scheme.

Table 4.7: Contribution of Departments to Provincial Own Receipts 2006/07 - 2009/10

Department (R' 000)	2006/07	2007/08		2008/09		2009/10
	Adjusted Budget	Revised estimate	Changes to baseline	Revised estimate	Changes to baseline	Estimate
Premier	510	522	12	543	33	564
Provincial Parliament	58	52	(6)	52	(6)	52
Provincial Treasury	292 300	332 374	23 221	344 235	33 656	354 223
Community Safety	1 013	765	80	848	108	891
Education	21 641	18 675	6 458	12 819	(2)	12 819
Health	325 053	315 119	(90)	320 785	(90)	320 785
Social Development	272	275		280		280
Local Government and Housing	60 090	50 000	24 910	50 000	24 910	30 000
Environmental Affairs and Development Planning	58	151	63	126	38	106
Transport and Public Works	817 047	809 853	3 006	836 113	4 006	837 507
Agriculture	13 003	12 110		12 110		12 110
Economic Development and Tourism	4 600	20 770	1 770	23 770	4 770	27 270
Cultural Affairs and Sport	1 659	425		430	5	440
Total receipts	1 537 304	1 561 091	59 424	1 602 111	67 428	1 597 047

Table 4.8 below shows the total annual Provincial Own Receipts budget by source between 2006/07 and 2009/10. Currently, motor vehicle licence fees, casino taxes and health patient fees dominate.

Table 4.8: Western Cape Own Receipts by source 2006/07 – 2009/10

Source R'000	2006/07	2007/08	2008/09	2009/10
	Adjusted Budget	Medium term estimates		
Tax receipts	994 991	1 081 547	1 125 312	1 170 876
Casino taxes	221 960	266 630	272 672	281 627
Horse racing taxes	15 200	17 607	17 607	17 607
Motor vehicle licences	753 501	776 106	799 389	799 389
Liquor licenses and other taxes	4 330	20 500	23 500	27 000
Sales of goods and services other than capital assets	283 359	262 449	266 321	267 764
Transfers received	101 741	106 055	111 721	111 721
Fines, penalties and forfeits	550	623	608	618
Interest, dividends and rent on land	58 992	55 076	57 501	58 535
Sales of capital assets	16 293	49	49	49
Financial transactions in assets and liabilities	81 378	55 996	52 743	32 737
Total	1 537 304	1 561 091	1 602 111	1 597 047

Motor vehicle licence fees

Motor vehicle licence fees are projected to contribute R753,50 million to provincial own receipts in 2006/07. The fees are projected to increase to R776,11 million in 2007/08 and to R799,39 million in 2008/09 and 2009/10. This constitutes an annual average increase of 2 per cent over the MTEF. The projections in license fee receipts are based on the projected annual average increases of 2 per cent in the vehicle population in the Province.

Receipts from motor vehicle licence fees to total R776 million in 2007/08

Given the current level of motor vehicle licence fees in the Western Cape, a policy decision has been taken not to increase motor vehicle licence fees in 2007/08. The Province is conducting a socio-economic incidence analysis of motor vehicle license fees in the Western Cape and the implications of this incidence on cross-border re-licensing. This research will be used in further roll-out work of the fuel levy as the user base of these taxes are the same.

In terms of the Road Traffic Act, 1989 (Act No. 29 of 1989), the Department of Transport and Public Works appointed 76 registering authorities in the Western Cape Province to collect motor vehicle licence fees. Registering Authorities retain 12 per cent of the motor vehicle licence fees collected.

Health patient fees

Health patient fees (incorporated under 'sales of goods and services other than capital assets' in Table 4.8) are expected to contribute R196,69 million to provincial own receipts in 2006/07. This amount is projected to decrease to R183,68 million over the MTEF, an annual average decrease of 2,3 per cent over the MTEF.

Health Patient Fees to drop 2,3 per cent on average over MTEF

The Department charges health patient fees to uninsured patients, Medical Aid Schemes, the Workmen's Compensation Fund, and the Road Accident Fund.

The Health Department is continuously devising strategies to enhance revenue generation. Amongst these strategies are:

- The improvement of billing systems at hospitals and clinics, debt collection and payment methods.
- The revision of tariffs in line with inflation.
- The revision of the Uniform Patient Fee Schedules (UPFS) for uninsured patients attending public hospitals.
- The issuing of transport vouchers for the transport of discharged patients by HealthNet drivers.

Interest, dividends and rent on land

Interest, dividends and rent on land is expected to contribute R58,99 million to provincial own receipts in 2006/07. The amount projected to decrease over the 2007 MTEF to R55,08 million in 2007/08; R57,50 million in 2008/09 and R58,54 million in 2009/10.

Casino and horse racing taxes

Casino taxes are the second largest source of revenue available to the Province. Casino taxes are expected to contribute R221,96 million in 2006/07. The taxes are projected to increase over the 2007 MTEF to R266,63 million in 2007/08, R272,67 million in 2008/09 and R281,63 million in 2009/10. These increases constitute an annual average increase of 8,3 per cent.

*8 per cent rise each year
in income from casino
taxes*

Horse racing taxes are expected to contribute R15,20 million in 2006/07 and are projected to remain at R17,61 million over the 2007 MTEF. These estimates constitute an annual average increase of 5 per cent over the MTEF.

Liquor licence fees

Liquor licence fees are expected to contribute R4,33 million in 2006/07. Over the 2007 MTEF, these licence fees are estimated to increase to R20,50 million in 2007/08, to R23,50 million in 2008/09 and to R27 million in 2009/10. The projected increases of an annual average of 84,1 per cent over the MTEF period are due to the planned implementation of the Western Cape Liquor Act.

*WC Liquor Bill to be
enacted February 2007*

The Western Cape Liquor Bill, first published in February 2006, has been extensively redrafted in line with the public comments received. The Bill will be subjected to further public comment during the public hearings scheduled for December 2006 to be held throughout the Province. Enactment of the Bill is scheduled for February 2007. The regulations to the Bill will be published soon after and it is expected that the Western Cape Liquor Act will be promulgated by the end of March 2007.

The current draft of the Bill provides for the licensing for retail sale and micro-manufacture of liquor within the province by the Liquor Board. Under the Bill, municipalities will act as licensing agents of the Board. The Bill also caters for the transformation of the liquor industry by creating an opportunity for new participants to enter the regulated industry. The Bill further provides for penalties relating to the sale and manufacture of liquor in the Province.

Other sources of own receipts

Revenue sources covered under 'other' include: the sale of goods and services other than capital assets (excluding health patient fees); transfers received; fines, penalties and forfeits; sales of capital assets and financial transactions in assets and liabilities. 'Other' sources comprise between 11 and 20 per cent of total provincial own receipts and decrease over the MTEF by an annual average rate of 7,2 per cent.

Revenue Incentive Policy

National Treasury and the Financial and Fiscal Commission (FFC) have identified constraints in the collection of provincial receipts and proposed ways to improve revenue collection. One suggestion is to set up appropriate incentives aimed at getting provinces to collect more revenue. Hence the Western Cape adopted a revenue retention strategy. This strategy provides for incentives to departments that collect funds above the targets set in their adjusted budgets.

Revenue retention strategy gives incentives to departments

Annually departments are allowed to submit requests to the Provincial Treasury for retaining and using any funds collected over their adjusted budgets. Approvals are guided by principles which include:

- Retained funds should be allocated for once-off expenditure.
- Retained funds should not be allocated for recurrent expenditure.
- The allocation of retained funds should be evaluated against rollover requests to prevent 'double dipping'.

The strategy is intended to reduce under-budgeting in receipts, unnecessary delays in spending and the accumulation of cash in Departments.

Despite this strategy, some departments' budget estimates are still below actual outcomes. This may be ascribed to a possible lack of capacity in departments to accurately forecast revenue collection. The Provincial Treasury will explore the development of a revenue estimation model to provide for more accurate and robust revenue estimates in the future.

Expanding the Provincial tax base

The Western Cape's financing situation is not sustainable over the medium- to long-term. The Province is currently financing fiscal deficits from accumulated reserves. To raise the fiscal bar over the medium- to long-term, the Province needs to deepen and expand its own receipts base. The expansion of the base will serve two purposes. Firstly, it will raise the discretionary part of the Province's revenue envelope. Secondly, it will raise the Western Cape's capacity to fund large economic infrastructure projects.

The Provincial Treasury has made substantial progress in the implementation of the Provincial Tax Regulation Process Act, 2001 (Act No. 53 of 2001). The Act does not define the new taxes that provinces may impose. Instead, the Act regulates the inter-governmental process that must be followed by provinces in the exercising of their taxing powers contained in section 228 of the Constitution.

The Western Cape has identified a number of taxes for consideration and exploration, which include a Fuel Levy, tourism related levies and other levies.

Fuel Levy

The Province concluded research on the viability of the implementation of a fuel levy in the Province. The national Minister of Finance granted approval for the use of this tax, subject to:

- “An inception rate of up to 10 cents a litre, but without the provision of a band;
- The implementation date and any future adjustments to the levy and the date such an adjustment be done with concurrence of the Minister.
- Steps being taken to mitigate the possible adverse impact the provincial fuel levy may have on sectors that qualify for a refund of the national diesel fuel tax”³.

Fuel levy to boost provincial own revenue

National enabling legislation is required before the proposal may be presented to the Provincial Parliament for consideration. The Province has requested the national Minister of Finance to introduce such an enabling Bill by early 2007. Subsequent to the introduction of the enabling Bill in National Parliament, Provincial Treasury will publish a draft Western Cape Fuel Levy Bill. The Provincial Treasury will work with the Department of Transport and Public Works to draft the Fuel Levy Bill. A consultation process on the published Bill will be embarked upon. It is envisaged that the Bill to regulate the fuel levy will be tabled on Provincial Budget Day 2008 and passed into law during the 2008 financial year.

Tourism related levies and other levies

Research on the viability of tourism related levies and other levies have commenced. The provincial Minister will make further announcements with the tabling of the 2007 Budget.

³ Approval letter by national Minister of Finance

Asset Financing Reserve

Asset Financing Reserve enables increased spending on infrastructure

Apart from transfers from national government and provincial own receipts, the third source of funds for the provincial budget is the Asset Financing Reserve (AFR) which was set up to separate daily and long-term cash transactions. This separation enables the Provincial Treasury to better distinguish between budgeted funds which are to be spent by Departments during the course of the financial year and accumulated reserves and uncommitted funds which may be allocated to departments as and when required. The accumulated reserves and uncommitted funds are generally used to finance infrastructure-related expenditure.

The establishment of the AFR also provides for the transparent reporting and management of reserves by the Provincial Treasury. The AFR allows for transparency in how reserve funds are invested during and at the end of a financial year, as well as the interest revenue received on these investments.

To enable the management of the AFR as a separate entity within the ambit of the Provincial Revenue Fund (PRF), a separate vote and responsibility code has been created on Basic Accounting System (BAS) in the books of the PRF. The separate code for the AFR allows the Provincial Treasury to easily distinguish the transactions and financial position of the AFR from those of the PRF.

Allocations from the AFR for the 2007 MTEF amount to R290,29 million in 2007/08 and R300 million in 2008/09. As mentioned previously, these funds are to be used exclusively for infrastructure-related expenditure.

Expenditure Trends

The efficient utilisation of financial resources for national and provincial priorities enables the achievement of the goals and objectives set by AsgiSA and the PGDS. The past two quarters have seen departments exercise fiscal discipline and do better planning giving rise to smoother expenditure. The 2005/06 March expenditure spike was also significantly lower than in the previous year. Accelerated expenditure on infrastructure is expected to continue over the 2007/08 MTEF period.

Outcome of the 2005/06 Budget

Total expenditure for the Western Cape amounted to R20,928 billion in the 2005/06 financial year, compared to the total allocation of R21,211 billion. This resulted in an underspending of R283,3 million or 1,3 per cent. It also compares well with the national underspending norm of 2 per cent and the 2004/05 underspending which amounted to 2,2 per cent or R418,5 million.

Provincial spending within national norm

The Province's departments and legislature have requested that unspent funds totalling R215,3 million be rolled over to 2006/07. R58,3 million of this amount is for the Social Assistance Administration and Transfers Grants. These grants were forwarded to National Treasury for consideration and rolled over to the South African Social Security Agency (SASSA) via the National Department of Social Development. A further R84,8 million of the rollover request pertains to national conditional grants, the approval of which rests with National Treasury.

Rollover for spending on education approved by Provincial Treasury

Provincial Treasury has approved roll-overs of R65,552 million, of which R55,415 million is for education spending. This spending mainly included: the payment of grade progression; school grading norms; scarce skills; rewards to qualifying educators; and the construction and maintenance of school infrastructure.

March expenditure spike has been reduced significantly due to tighter controls

When comparing 2004/05 and 2005/06 expenditure trends from December to March, it is encouraging to note that some smoothing of expenditure has occurred. The increase in expenditure between February and March (so called "March Spike") was 36,9 per cent in 2005/06 compared to 54,4 per cent in 2004/05. This result was attained through tighter cashflow control over the last few months of the 2005/06 financial year and by limiting departmental rollovers into 2006/07 to 1 per cent of the main budget. The Provincial Treasury will institute further control measures in 2006/07 in an attempt to further lower the March spike expected in the 2006/07 financial year.

Half-year spending estimates for 2006/07

The Province has spent R8,553 billion in the first half of the 2006/07 financial year, which constitutes 46 per cent of the total adjusted budget for 2006/07. This compares favourably to 2005/06, when spending for the first half of the year amounted to R7,527 billion or 44,3 per cent of the 2005/06 adjusted budget.

Transfer and subsidy payments largely due to accelerated spending on housing

In terms of economic classification, 46,5 per cent of the current payments allocation has been spent, while 50,9 per cent of transfers and subsidies has been spent. The transfers and subsidies spending was mainly due to the accelerated spending on housing by the Department of Local Government and Housing. Only 33,8 per cent of the allocated payments for capital assets was spent, similar to spending in 2005/06.

Tables 5.1 and 5.2 indicate the actual expenditure in 2005/06 and for the period 1 April 2006 to 30 September 2006, per provincial department and per economic classification.

Table 5.1: Actual expenditure per provincial department

Departments	2005/06		2006/07		% Spent of Adjusted Budget
	Adjusted Budget	Actual Expenditure	Adjusted Budget	Actual 1st Half Spending	
	R'000	R'000	R'000	R'000	
Department of the Premier	298,068	296,048	310,927	159,232	51.2%
Provincial Parliament	55,998	48,227	66,369	28,473	42.9%
Provincial Treasury	115,409	114,275	134,246	57,631	42.9%
Community Safety	178,796	178,768	181,257	82,774	45.7%
Education	6,504,659	6,449,244	7,047,193	3,215,017	45.6%
Health	5,776,822	5,718,812	6,353,761	3,050,570	48.0%
Social Development	694,526	653,512	727,145	303,700	41.8%
Local Government & Housing	811,808	790,167	795,177	473,767	59.6%
Environmental Affairs & Development Planning	159,020	158,859	184,569	83,064	45.0%
Transport & Public Works	1,797,365	1,773,251	2,172,428	827,152	38.1%
Agriculture	269,226	258,515	254,034	126,967	50.0%
Economic Development & Tourism	142,405	142,006	189,061	74,764	39.5%
Cultural Affairs & Sport	168,312	165,705	186,421	70,479	37.8%
Total	16,972,414	16,747,389	18,602,588	8,553,590	46.0%

Note: 2005/06 figures excludes Social Security function

Table 5.2: Actual expenditure per economic classification

Economic Classification	2005/06		2006/07		% Spent of Adjusted Budget
	Adjusted Budget	Actual Expenditure	Adjusted Budget	Actual 1st Half Spending	
	R'000	R'000	R'000	R'000	
Current payments	12,902,385	12,571,734	14,438,421	6,721,045	46.5%
Compensation of employees	9,201,383	8,853,273	10,249,327	4,788,415	46.7%
Goods and services	3,693,233	3,708,127	4,184,313	1,931,213	46.2%
Interest and rent on land	2,588				
Financial transactions in assets and liabilities	5,181	10,334	4,781	1,417	29.6%
Unauthorised expenditure					
Transfers and subsidies	2,537,446	2,703,065	2,490,407	1,267,633	50.9%
Provinces and municipalities	494,889	490,162	310,239	150,784	48.6%
Departmental agencies and accounts	153,547	161,096	200,713	78,353	39.0%
Universities and technikons	58,723	55,631	2,664	1,605	60.2%
Public corporations and private enterprises	40,206	45,548	28,341	19,104	67.4%
Foreign governments and international organisations	150	88	163		0.0%
Non-profit institutions	1,038,992	1,197,014	1,209,364	601,898	49.8%
Households	750,939	753,526	738,923	415,889	56.3%
Payments and capital assets	1,532,583	1,472,590	1,673,760	564,912	33.8%
Buildings and other fixed structures	1,189,569	1,137,573	1,344,167	466,279	34.7%
Machinery and equipment	279,166	272,170	286,128	89,725	31.4%
Cultivated assets	132	1,049	36	54	150.0%
Software and other intangible assets	10,316	22,398	7,806	7,962	102.0%
Land and subsoil assets	53,400	39,400	35,623	892	2.5%
Total	16,972,414	16,747,389	18,602,588	8,553,590	46.0%

Savings to be redirected to fund provincial priorities

Adjusted Estimates

Additional resources were provided for specific purposes in the national adjustment budget. Departments were therefore requested to assess possible savings (chiefly located under the provision of compensation of employees) and to redirect these savings to pressing priorities in time for the 2006/07 adjusted estimates. Departments were further requested to use the adjusted estimates to smooth their expenditure pattern and thereby lessen the possible March spike in 2006/07.

The focus of expenditure in the adjusted estimates budget is mainly on infrastructure and is essentially a technical process in terms of section 31 of the Public Finance Management Act, 1999 (Act 1 of 1999). More than R1 billion has been added to the 2006/07 Main Budget allocation, mainly as a result of national funding for the N2 Gateway Project (R372 million) and Disaster relief (R152,8 million).

Expenditure and budget trends

Table 5.3 indicates the expenditure trends between 2002/03 and 2008/09, as well as budget allocations over the 2006 MTEF per department. The total provincial allocation increased from R16,747 billion in 2005/06 to R18,376 billion in 2006/07 and constitutes a 4,4 per cent increase in real terms.

Table 5.3: Expenditure and budget trends

Votes	Audited				Budget 2006/07 R'000	Real Growth % 2005/06- 2006/07	MTEF	
	2002/03 R'000	2003/04 R'000	2004/05 R'000	2005/06 R'000			2007/08 R'000	2008/09 R'000
Department of the Premier	335,724	312,936	288,662	296,048	310,927	(0.07)%	326,905	343,093
Provincial Parliament	35,227	41,004	43,599	48,227	63,422	25.13%	65,380	69,331
Provincial Treasury	60,533	65,421	102,333	114,275	134,246	11.78%	145,340	152,448
Community Safety	118,751	141,187	164,256	178,768	181,257	(3.53)%	189,548	199,292
Education	4,802,240	5,304,807	5,690,709	6,449,244	6,988,131	3.10%	7,592,595	8,211,663
Health	3,951,022	4,547,304	5,169,199	5,718,812	6,323,493	5.21%	6,774,319	7,332,905
Social Development	465,442	518,964	603,003	653,512	727,143	5.87%	867,121	1,034,957
Local Government & Housing	482,554	426,692	665,872	790,167	776,962	(6.44)%	935,510	1,020,001
Environmental Affairs & Development Planning	120,470	120,622	135,468	158,859	175,525	5.13%	165,865	173,991
Transport & Public Works	1,081,737	1,216,208	1,258,628	1,773,251	2,064,326	10.77%	2,093,836	2,346,450
Agriculture	131,168	160,591	196,893	258,515	254,034	(6.50)%	287,217	304,989
Economic Development & Tourism	142,622	122,755	126,439	142,006	188,433	26.25%	206,709	214,749
Cultural Affairs & Sport	108,478	134,477	148,932	165,705	187,691	7.77%	204,464	218,106
Total	11,835,968	13,112,968	14,593,993	16,747,389	18,375,590	4.40%	19,854,809	21,621,975
Difference		1,277,000	1,481,025	2,153,396	1,628,201		1,479,219	1,767,166
Nominal Growth		10.79%	11.29%	14.76%	9.72%		8.05%	8.90%
Real Growth		5.01%	6.91%	9.60%	4.40%		3.10%	4.21%
Average annual nominal growth (2002/03-2005/06)				12.27%				
Average annual nominal growth (2006/07-2008/09)								8.89%
Average annual real growth (2002/03-2005/06)				7.16%				
Average annual real growth (2006/07-2008/09)								3.90%

Expenditure by economic classification

Table 5.4: Provincial expenditure per economic classification

Economic Classification	Audited				Budget 2006/07 R'000	Real Growth % 05/06-06/07	MTEF	
	2002/03 R'000	2003/04 R'000	2004/05 R'000	2005/06 R'000			2007/08 R'000	2008/09 R'000
Current payments	9,273,700	10,320,754	11,404,352	12,571,734	14,341,223	8.54%	15,463,709	16,830,542
Compensation of employees	6,975,242	7,471,119	8,177,831	8,853,273	10,210,629	9.74%	10,966,972	11,725,139
Goods and services	2,291,647	2,834,378	3,213,949	3,708,127	4,125,839	5.87%	4,491,753	5,100,195
Interest and rent on land	1,922	2,243	-	-	-	-	-	-
Financial transactions in assets and liabilities	4,889	13,014	12,572	10,334	4,755	(56.22)%	4,984	5,208
Unauthorised expenditure	-	-	-	-	-	-	-	-
Transfers and subsidies to	1,739,275	1,850,135	2,133,937	2,703,065	2,417,596	(14.90)%	2,798,947	3,103,237
Provinces and municipalities	299,343	359,368	352,436	490,162	293,196	(43.09)%	334,539	354,159
Departmental agencies and accounts	155,679	188,099	139,420	161,096	147,980	(12.60)%	135,701	141,366
Universities and technikons	41,075	42,723	57,799	55,631	2,664	(95.44)%	2,494	2,782
Public corporations and private enterprises	3,911	23,793	37,924	45,548	26,841	(43.93)%	25,740	25,755
Foreign governments and international organisations	100	67	120	88	163	76.24%	170	173
Non-profit institutions	774,353	805,086	899,391	1,197,014	1,207,954	(3.98)%	1,397,970	1,595,073
Households	464,814	430,999	646,847	753,526	738,798	(6.71)%	902,333	983,929
Payments for capital assets	822,993	942,079	1,055,704	1,472,590	1,616,771	4.46%	1,592,153	1,688,196
Buildings and other fixed structures	587,648	693,505	813,045	1,137,573	1,314,026	9.91%	1,256,144	1,351,146
Machinery and equipment	233,490	240,428	229,718	272,170	284,646	(0.49)%	317,746	314,415
Cultivated assets	-	-	112	1,049	36	(96.73)%	110	110
Software and other intangible assets	-	5,909	8,944	22,398	7,563	(67.87)%	6,953	6,025
Land and subsoil assets	1,855	2,237	3,885	39,400	10,500	(74.64)%	11,200	16,500
	11,835,968	13,112,968	14,593,993	16,747,389	18,375,590	4.40%	19,854,809	21,621,975

Table 5.4 indicates provincial expenditure by economic classification. 'Compensation of employees' receives the bulk of provincial expenditure at R10,211 billion or 55,6 per cent of the 2006/07 budget. 'Compensation of employees' grows by 9,74 per cent in real terms from 2005/06 to 2006/07. Past trends have shown that departments shift funds away from 'Compensation of employees'. In 2005/06 a total of R285,8 million was shifted to other economic classifications.

'Transfers and subsidies' consumes 13,2 per cent of the 2006/07 budget. The main 'Transfers and subsidies' allocations include R587,024 million for the housing subsidy programme, R588,628 million for subsidies to schools and R293,196 million to local government.

Growth in capital asset allocations points to commitment to infrastructure development

Payments for capital assets increased from R1,473 billion in 2005/06 to R1,617 billion in 2006/07, constituting a real increase of 4,46 per cent. The item 'building and other fixed structures' shows the highest growth in capital asset allocations at 9,9 per cent in real terms. This increase helps to illustrate the Province's commitment towards investing in infrastructure.

Cluster Progress, Priorities and Plans

In alignment with national policy priorities and the Western Cape's Provincial Growth Development Strategy (PGDS), Departmental plans for the 2007 MTEF build on progress made on the 2006/07 key deliverables and address emerging service delivery challenges. Over the 2007 MTEF, strengthening internal capacity is a key priority of all three clusters, and is vital for increasing the Province's ability to deliver efficiently and effectively.

In addition to personnel-related interventions, the Social Cluster will prioritise investment in emergency medical services, promotion of human capital development and programmes to address substance abuse. Skills development, infrastructure, roads, tourism, Expanded Public Works Programme (EPWP) and agriculture are high on the agenda of the Economic Cluster. The 2007 MTEF priorities for the Governance and Administration Cluster also include critical investment in security risk management, financial governance and disaster management.

Introduction

Chapter 3 set out the national policy priorities and demonstrated how the provincial priorities, as encapsulated in the PGDS, are embedded within the national policy framework. Chapter 4 provided detail on the resource envelope available to the Province over the 2007 MTEF. By detailing expenditure outcomes for 2005/06 and half-year spending for 2006/07, Chapter 5 provided insight on how well Departments are managing to utilise the funds currently available to them.

This chapter ties all of these elements together to show how Clusters and their constituent Departments plan to convert financial resources into service delivery outcomes which move the Province towards faster, shared economic growth.

Social Cluster

As noted in Chapter 3, over the 2007 MTEF, the Social Cluster will continue a push begun in the 2006 MTEF to improve the quality of services and people's access to those services. There is a clear recognition of the importance of improving remuneration and building skills of personnel in order to alleviate staff shortages and improve quality of social services. Furthermore, the Cluster is putting special emphasis on lessening the burden of trauma and illness, by investing in emergency medical services and programmes to address infectious disease.

Department of Education

Human capital development remains a key focus area for the Province over the MTEF period. Human capital development includes: school-based education, adult education, tertiary education, and skills development. Over the 2007 MTEF, the Education Department will concentrate on improving quality, access and equity in education and skills development through the Further Education and Training (FET) college sector.

To realise these objectives of quality, access and equity, the Department identified a number of key deliverables for 2006/07 described below. These programme objectives will be pursued further in the 2007 MTEF, in alignment with education priorities identified by national government. A number of these national education priorities identified in Chapter 3 overlap with Western Cape Education Department (WCED) priorities, and speak to various initiatives already underway in the Western Cape.

Human Capital Development Strategy

The Human Capital Development Strategy (HCDS) which was launched earlier this year serves as one of the base documents for the PGDS. While the interventions of the Strategy are primarily focused on school learning, the HCDS also forms a sound basis for addressing the knowledge and skills gap experienced in the Western Cape. However, it is essential that the HCDS links up with the Scarce Skills Strategy being driven by the Department of the Premier and the Workforce Development Strategy being driven by the Department of Economic Development and Tourism.

In order to successfully achieve the objectives of the HCDS, the Department is currently re-organising itself. The redesign process will ensure that the WCED is aligned to the HCDS and that all designated groups are adequately represented in the Department. The promotion of the Department's employment equity strategy is critical to the redesign process. The Department must establish appropriate organisational structures at school level and re-design the

Recently launched HCDS provides a sound base for addressing the knowledge and skills gap in the Province

WCED restructures to align with the HCDS

form and function of district offices so that these offices can focus on providing targeted and intensive support to schools.

Quality and upliftment programmes

The WCED's quality and upliftment programmes aim to improve physical resources as well as learning outcomes for historically disadvantaged learners in particular. One of the achievements of this programme is the expansion of Dinaledi Schools from 10 to 50 in 2006/07. The Dinaledi mathematics and science schools, a national initiative, are designed to increase the number of historically disadvantaged learners passing mathematics and science. The Province initiated the special Focus Schools Programme in 2005 to accommodate learners wishing to specialise in Arts and Culture; Business, Commerce and Management; and Engineering and Technology. The number of focus schools has been expanded to 28 thereby ensuring that all districts offer the full range of subjects.

Special Focus Schools Programme expanded

The 2006 MTEF made provision for quality improvement programmes in order to address the deterioration of and backlogs in equipment, school facilities and supplies. In the 2007 MTEF, expenditure for the Quality Improvement, Development, Support and Upliftment Programme will be stepped up.

With regard to the FET college sector, monies for the first year of the three-year Re-capitalisation Grant have been transferred to all six FET colleges. These funds have enabled the colleges to begin to upgrade physical infrastructure, develop relevant programmes, and acquire the equipment needed to support programme delivery and enhance skills development.

Infrastructure upgrading, programme development and more equipment for FET colleges

The enhanced funding for FET colleges and continued funding for the Dinaledi and Focus School Programme speak directly to addressing the shortage of skills which is identified as a "binding constraint" in AsgiSA.

At the provincial level the iKapa Elihlumayo Financial Aid Plan which provides financial assistance to learners in FET colleges has been significantly stepped up, thereby enabling an increased number of poorer learners to access colleges.

Increased access to financial aid for FET college learners

The need for improved school safety remains a concern, as it significantly undermines learning at schools and makes schools dangerous places for learners. Through the Safe Schools Programme, the Department has identified a range of interventions focused on community engagement, peer guidance programmes, training, school management and safety infrastructure. The School Safety Infrastructure project is ongoing and will roll out additional school safety infrastructure to priority schools that have been identified by the Department as the most dangerous for learners and staff. The Department actively engages with the Department of Community

Additional priority schools to receive safety infrastructure

Safety in the Bambanani School Safety Volunteer Programme, which currently locates volunteers at 100 schools.

Literacy and Numeracy Strategy 2006-2016 launched for primary school level

The Literacy and Numeracy Strategy 2006-2016, launched this year, sets out targets for improved literacy and numeracy levels for each primary school in the Province. By identifying individual school targets, the Department aims to ensure that a minimum of 50 per cent of learners achieve acceptable literacy and numeracy levels at grades three and six.

Programmes to improve access and equity

No-fee status awarded to poorest schools in Province

An important initiative to improve access and equity is the awarding of no-fee status to the Province's poorest schools. A total of 419 of the poorest primary schools were awarded no-fee status in 2006, with each learner being allocated norms and standards funding of R527. Eighty per cent of this allocation is to be used for the purchase of textbooks, the payment of municipal services, minor maintenance and local purchases e.g. paper for photocopies. The remaining 20 per cent is to compensate schools for the loss of school fee revenue that would normally cover other expenses such as telephone bills. In the next financial year, the no-fee school policy will be extended to secondary schools as well as the next poorest public ordinary schools on a sliding scale.

900 ECD practitioners are currently being trained through the EPWP

Another means to improve access and equity in education is to improve the quality of Early Childhood Development (ECD). Together with the Departments of Social Services and Health, the WCED is in the process of implementing the Integrated Framework on ECD. The Framework uses the EPWP to improve the quality of ECD. As an initial step, 900 ECD practitioners are receiving training through EPWP. Furthermore, 6 000 additional pupils have been accommodated in Grade R.

Monitoring and systemic evaluation

Monitoring and evaluation framework developed to improve assessment and measure performance

The Department is placing increasing emphasis on monitoring and evaluation in order to improve the quality of education. This will be achieved through systemic evaluation, including the testing of grade three and six learners' literacy and numeracy competency levels; School Self-Evaluation; and Whole School Evaluation. The Department has established the Directorate Quality Assurance to carry out and oversee these evaluation initiatives. Furthermore, the Department has developed a monitoring and evaluation framework which enables it to set targets and measure performance at different levels within the education system (for example, at the individual teacher, principal, school and municipal district level).

Systemic evaluation is done in order to monitor the performance of grade three and six learners in language and mathematics assessments. These assessments will provide 'rigorous evidence' to indicate which schooling resources and management practices merit prioritisation. Furthermore, the assessments will provide baseline information necessary to measure the efficacy of various interventions.

Education Management Information Systems

The increasing focus on monitoring and evaluation requires ever more sophisticated Education Management Information Systems (EMIS). In response to this need the WCED has established the Central Education Management Information System (CEMIS) database, which allows for the tracking and reporting of individual learner movement within the education system. Information contained within the CEMIS database provides a useful management tool for both schools and the Department.

Enhancing the Quality of our Teachers and Principals

As noted in Chapter 3, teacher development (specifically focused on mathematics, literacy, life orientation and Grade R) and school management have been identified as a crucial national priorities in the sector. Teacher development programmes are aimed at upgrading the qualifications of existing teachers, while specific training programmes will improve the leadership and management skills of school principals.

Upgrading qualifications of existing teachers and improving conditions of service identified as key to enhancing educator quality

Over the course of the MTEF, further steps will be taken to improve the conditions of service of school managers and other educators as well as providing administrative support in schools.

Infrastructure Spending in Education

With regard to infrastructure spending in education, R109,510 million was spent in the first half of the 2006/07 financial year which constitutes only 39,2 per cent of the main budget for infrastructure for 2006/07.¹ Although the spending was low in the first half of the financial year, a number of contracts were awarded during this period and a sharp increase in expenditure is expected in the latter half of this financial year. The Department should be able to spend their Adjusted Budget in full. In the past, the Department has usually spent its infrastructure allocation.

The infrastructure budget of Education was front-loaded in 2005/06 by R160,500 million using the 2007/08 and 2008/09 allocations. The Department managed to spend its total allocation of R353,744 million in 2005/06. However, due to the front-loading, the allocations in 2007/08 and 2008/09 decrease sharply. The infrastructure budget then resumes normal levels in 2009/10. Moving the infrastructure budget earlier allows the Department to benefit from the time value of money. The benefits are particularly marked given higher-than-average inflation rates in the construction sector.

Despite the recent drive to boost infrastructure spending in Education, the infrastructure backlogs in Education are still an outstanding issue. The Department also struggles to adequately maintain ageing school buildings.

As noted above, the IDIP was first introduced in the Department of Education to address issues identified in the assessment and design phase, especially those that relate to planning. During the first phase of the IDIP, one technical assistant (TA) was provided to the Western Cape and deployed at the Department of Education.

Department of Health

As noted in Chapter 3, Emergency Medical Services (EMS), human resources, information systems, the modernisation of tertiary services and Primary Health Care (PHC) have been identified as key priorities for the sector at the national level. At the provincial level, Healthcare 2010 and the PGDS provide strategic direction, while the Comprehensive Service Plan (CSP) and Infrastructure Plan (IP) outline how these strategies will be implemented. Healthcare 2010 and the CSP also work in support of the Social Capital Formation Strategy (SCFS), which serves as one of the base strategies of the PGDS.

As part of its key deliverables for 2006/07, in the recent financial year the Department set out to:

- Implement the CSP to give effect to the implementation of Healthcare 2010.
- Sign new multilateral and bilateral agreements between the Department and the four institutions of higher learning.

¹ In-Year Monitoring Report as at 30 September 2006.

Healthcare 2010 provides strategic direction while the Comprehensive Service Plan outlines implementation

- Manage EMS and planned patient transport.
- Assume full responsibility for PHC in rural areas.
- Strengthen TB programmes and management, treatment and care of people living with HIV and Aids.
- Recruit and retain appropriately trained and experienced staff especially nurses.
- Improve the effectiveness of human resource and financial management to ensure stability in the Provincial health service.
- Expand the EPWP programmes to community-based care workers and community development health workers.

Open for public comment until October 2006, the CSP is essentially the detailed implementation plan for achieving an efficient, effective, client-driven health care system in the Western Cape. Achievement of each of the Department's 2006/07 key deliverables is synonymous with the realisation of the objectives set out in the CSP.

The earmarked funding in the 2006/07 budget for the modernisation of tertiary services has been spent on the purchase of radio-oncology equipment and the associated warranty and maintenance contracts.

Higher patient costs at hospitals compared to PHC facilities have prompted the Department to emphasise PHC facilities as the first port of call for non-life threatening incidents. With the quality of service at primary health care level becoming increasingly important, plans are in place to appoint an additional 108 nurses in the Metro district at PHC level in the current year. Two family physicians have also been employed. Three community health centres in the Mitchells Plain area have extended their service hours, with the appointment of complementary nursing staff. At the same time, the Department has completed the take-over of operational control of the PHC in rural areas, although the transfer of staff, poor maintenance of infrastructure and replacement of moveable assets have proven challenging.

Emphasis has been placed on the importance and quality of primary health care

The efficient communication between the tiers of health care is aided by the Health Information System and Primary Health Care Information System. The implementation of both systems are proceeding according to plan. However, while the appointment of information analysts is underway, capacity constraints remain the key challenge to efficiently functioning information systems.

With regard to infectious disease, more than 80 000 people over the age of 15 have been tested for HIV & Aids in the Province between April and June 2006. The Department has extended HIV & Aids awareness and education programmes in addition to the provision of free condoms, Voluntary Counseling and Testing (VCT) and Sexually Transmitted Infection (STI) services at all primary health care

facilities. As of 30 September 2006 there were 21 281 patients receiving ARV treatment at 45 sites across the Province, 2 455 of those treated were children.

Prevention of Mother-to-Child Transmission programme available at all sub-districts in the Province.

The Prevention of Mother-to-Child Transmission (PMTCT) programme is now available at all sub-districts in the Province in an effort to reduce the mother-to-child transmission rate. The most recent data indicates a 5,8 per cent mother-to-child transmission rate in the Western Cape. The Department also intends to expand ART services at PHC sites and to implement a 'nurse-led doctor-supported' model for ART at PHC clinics. The education and awareness campaign targeting the youth has seen 5 916 peer educators at 125 secondary schools in the Province.

Additional resources have been made available for TB service provision

TB service provision at primary health care facilities and hospitals across the Province has been enhanced with the appointment of additional administrative and nursing staff. Over 47 500 patients were treated in the 2005 calendar year.

1,056 community based care workers receiving training through the EPWP

The Department has embarked on an initiative to train and fully accredit all care workers through the EPWP. At present 1 056 learners are undergoing a full-year accredited Community Based Service course and an additional 145 learners commenced training in October 2006. These care workers will provide services to all patients referred for home-based care.

Burden of Disease study improves understanding of causes of morbidity and mortality in the Province

The Burden of Disease Study for the Western Cape, a study measuring ill health and causes of death, is being conducted in partnership with the four institutions of higher learning in the Province. Information from this study will equip the Department to allocate resources for dealing with the major causes of disease and trauma in the Western Cape more effectively and efficiently. In addition, the research will assist departments, such as the Departments of Health and Community Safety, to understand the major causes of morbidity and mortality and their impact. The next detailed report on the Burden of Disease in the Western Cape is expected in November 2006.

Emergency medical services and human resources receive additional funds over the 2007 MTEF

The current MTEF priorities are designed to build on the national health sector priorities which informed the 2006 MTEF. As outlined in Chapter 3, the National Government has named three priorities to be given extra attention and resources over the 2007 MTEF. These priorities are:

- Emergency Medical Services.
- Health professional remuneration.
- Additional posts for health professionals.

Emergency Medical Services

Over the 2007 MTEF, the Emergency Medical Services model will be rolled out in preparation of the 2010 FIFA World Cup. Funding will be channeled towards shortening response times and improving services. Funds will be invested in an ambulance station upgrade, ambulance colleges, equipment, aero-medical services, new ambulances and improvements to the communications systems.

Although advances have been made, more needs to be done in order for the Western Cape EMS to comply with the response time targets set by the National Department. An earmarked allocation of R62,5 million will be received from the National Department over the 2006 MTEF period to aid the rollout of the service. The Department is in the process of upgrading its call centres to address response times. The Metropolitan Centre in Cape Town has been established and call centres are already operating in George, Beaufort West and Bredasdorp. All districts in the Western Cape will have functional centres by the end of 2007.

The response time in the Cape Town Metro has improved significantly, with 40 per cent of high priority and urgent cases attended to in less than 15 minutes in urban areas. Six ambulances have been ordered in the current year, of which two have already been delivered. The Department is also awaiting the receipt of six small ambulances.

However, while new equipment and communication are vital to reducing response time in the Western Cape, a key challenge to meeting national response time targets remains the shortage of personnel. In order to further shorten response times, the Department has provided for the appointment of 232 medical response staff over the next 3 years. Despite all planned staff appointments for 2006/07 having been made, the current supply of response staff will only be able to meet 20 per cent of the demand over the next 3 years. The shortfall will be addressed through the mid-level worker programme and the Cape Peninsula University of Technology National Diploma in Emergency Medical Care. Vocational internships will also be created to educate and train new entrants and release existing staff for training.

Human Resources

The Department faces the ongoing challenge of recruiting and retaining skilled medical staff, particularly nurses. Efforts to address the critical shortage of medical staff include interventions to reskill qualified nurses; train nursing assistants; provide mentorships; and award bursaries. Students have enrolled for bridging courses at Karl Bremer Hospital, while nurse mentors have been appointed at several district hospitals in the Metro District.

Department continues upgrade of emergency call centres in the Province

EMS training and staff needs are key to improved Emergency Medical Services

Interventions aim to address the critical shortage of nurses by increasing training and support

Additional nursing staff and a review of nurse salaries to be implemented nationally

Given the urgency of the situation, the National Department of Health has identified the improvement of the conditions of service of health professionals as a means for addressing current shortfalls in the public health service over the 2007 MTEF. Posts will be added to begin to reduce shortages. The Health Professionals Remuneration Review will also be implemented with a view to increasing salary levels. Nursing staff numbers are particularly low and the costs of revising salary structures of all medical staff will be very high. Salary adjustments will thus occur in a phased manner, commencing with nursing staff. Salary adjustments are to be extended to doctors and other categories of health professionals in the following years.

Infrastructure spending in Health

The Department of Health spent R112,609 million on infrastructure in the first half of 2006/07, which constitutes 34,7 per cent of the main budget for infrastructure in 2006/07.² With the exception of infrastructure spending on conditional grants in 2005/06, Health has usually managed to spend its infrastructure allocation.

Health faces a situation similar to that of Department of Education, where infrastructure backlogs place huge demands on the limited infrastructure budget. The Department is faced by trade-offs between the maintenance of health facilities and provision of health facilities in new housing settlements.

The intention is to implement IDIP in Health in the latter part of the current financial year by means of an assessment and design exercise. The IDIP aims to identify shortcomings in infrastructure and draft a business plan to address them. The implementation of the business plan will begin in April 2007.

Department of Cultural Affairs and Sport

The SCFS of the Western Cape focuses on the bridging and linking aspects of social capital in communities. Bridging social capital helps to build resilient communities and institutions that are free from discrimination, inequalities, crime, alcohol and substance abuse, violence against women and children and unhealthy lifestyles. The Department of Cultural Affairs and Sport (DCAS) provides various programmes in sport, recreation, art, culture, heritage, museums, libraries and information services to help achieve these objectives. In the current year a social capital unit has been established to drive and integrate social capital initiatives in the Province.

The Department renders some of its services on culture, heritage and language through three public entities, namely the Western Cape Cultural Commission, the Heritage Western Cape and the Language Committee. The public entities play an advisory role to the Provincial Minister and the Department, within the framework of the applicable legislation. Over the 2007 MTEF, DCAS aims to engage these public

² In-Year Monitoring Report as at 30 September 2006.

entities to focus their mandates and ensure that they operate strategically and developmentally in their particular spheres of responsibility.

2010 FIFA World Cup benefits that extend beyond hard infrastructure

The Department plays a key role in coordinating the Western Cape Leg of the 2010 FIFA World Cup. The 2010 FIFA World Cup provides an opportunity for the people of the Western Cape to showcase their cultural diversity, art, and heritage. In partnership with the City of Cape Town and district municipalities, the Department aims to leverage the 2010 FIFA World Cup event to leave a legacy that benefits the communities of the Western Cape, and extends beyond hard infrastructure. In the year ahead, the focus will be on developing programmes for football development, arts and culture diversity, sport and major events. The aims of these programmes are to strengthen the positive links for tourism and to market and promote the Province as a preferred destination. The 2006 MTBPS provides funds for arts and culture. The Department is also working with municipalities, the private sector, and other stakeholders to set up fan parks for the event.

2010 FIFA World Cup will leave a legacy that will benefit communities beyond infrastructure

Taking responsibility for libraries

Libraries play an important role in ensuring accessibility to educational, informational resources and inculcating a culture of reading. Constitutionally, libraries are a provincial function but are currently rendered by municipalities. The situation of some public libraries has been deteriorating, and many libraries are under threat as municipalities face financial constraints in rendering library services. The transfer of the library services from local municipalities to the Province is thus receiving attention at national level. The National Department of Arts and Culture is finalising a funding formula for the provincialisation of library services to ensure that libraries are properly resourced.

Transfer of library services from local municipalities to the Province under review

Construction of the sport school in Kuilsriver is underway

Significant progress has been made in the construction of a sports school in Kuilsriver, in cooperation with the Department of Transport and Public Works. A revised layout for the new classrooms has been agreed upon, and the second phase of construction is underway and scheduled for completion in January 2007, when the school is to open. The aim of the school is to enhance the performance of young athletes in the Western Cape. The selection and recruitment of learners is finalised and scientific testing is scheduled to be completed by the end of October 2006. The recruitment process for the coaching staff will commence after the finalisation of the recruitment of learners.

Mass Participation Grant increased to further combat anti-social behaviour and promote a culture of integrated sport

Expanding the mass participation programmes at grassroots level

The Mass Participation Conditional grant is being increased to allow the Provincial Departments of Sports and Recreation to expand their mass sports participation programmes, especially the promotion of football and the support of club structures at grassroots level. The Department will continue to draw on resources provided through this grant to combat anti-social behaviour at schools and surrounding communities, and to create employment for young people. In 2006/07 the Department utilised the funds to implement a Community and School Sport Mass Participation Program as a mechanism for building a culture of integrated sport and recreation through structured mass participation. The number of sport and recreation hubs for the Siyadlala Mass Participation are increased from 11 to 32. The intention of the hubs is to mobilise communities to organise sport and recreation activities.

Support growing local economies through sport and cultural events

DCAS has partnered with the Department of Economic Development and Tourism to create jobs through supporting cultural industries and major events. An interdepartmental task team has been set up to coordinate cultural industry projects. In the coming MTEF period, the Department aims to grow the Province's local economies and skills base through:

- The continuous marketing of the Province as a preferred venue for major sport and cultural events.
- The focused use of libraries and museums to build human and social capital and create an environment of learning and heritage appreciation.

Promoting awareness and accessibility to the Department's operations and intervention programmes

The DCAS's focus in the coming year is to make its operations and intervention programmes more visible, and familiar to communities across the Province. Towards this end, the DCAS aims to promote awareness of the Department's services, make arts and cultural sites more accessible, and continue to provide library services. The Department also aims to transform the institutions that govern the arts, culture and sport.

A unit for strategy formulation, research, monitoring and evaluation was established, and has begun to set up systems that will enhance the Department's strategic capacity and its ability to monitor and evaluate programmes.

Improving the Department's accessibility and strengthening its monitoring and evaluation system

Department of Social Development

The Department of Social Development (DSD) plays a key role in supporting and empowering poor and marginalised people to gain access to networks, resources and opportunities. The Department's aims are tightly linked to the PDGD objectives of PGDS building and strengthening social capital networks. DSD also supports the national agenda of building strong communities through the spirit of ubuntu, to achieve people-centred development.

As a reflection of its increasing focus on providing social welfare services to the most vulnerable groups of our societies, in mid-February 2006 the Department underwent a name change from the 'Department of Social Services and Poverty Alleviation' to the 'Department of Social Development'. The shifts of the social security function to the national South African Social Security Agency (SASSA) on 1 April 2006 has also allowed the Department to focus on providing social development services, and to consolidate its work on forming social capital. The Department of Social Development is, however, still responsible for rendering corporate support services to SASSA until SASSA is able to function independently.

A year has passed since the SCFS was launched in October 2005. In that time the social cluster has made progress in deepening its social capital interventions and initiatives, particularly in the areas of youth development, support to women and children, and social welfare services.

Youth development initiatives

Young people represent one of the most socio-economically vulnerable groups in our communities. Too many youth are committing or becoming victims of criminal activities. To a large extent, involvement in these activities is stimulated by a number of negative factors such as unemployment, poverty, peer pressure and dysfunctional families. Most of the SCFS interventions contain a strong focus on young people, in alignment with the goals of the PGDS to develop the youth of the Province. The Strategy also responds to the concerns raised in the 2005 Idasa survey, which indicated that there is a need to create better opportunities for the youth.

In response, the DSD's youth development projects provide for scholarships, internships, learnerships, skills development and mentoring. During 2005/06, 1 979 youth were capacitated through the EPWP. EPWP participants benefited from youth learnerships hosted at the Wolwekloof Academy, where they received skill and training as Early Childhood Development (ECD) practitioners and Home-Based Carers (HBC), and as youth interns and mentors. In 2006/07, 600 young people are receiving training on entrepreneurial and life-skills training in the West Coast. Plans have been developed to recruit

Many SCFS interventions centre on the development of and opportunities for young people

Educational and training initiatives have been extended to enhance the employability of youth

1 000 young people who will be trained to mentor, assist with referrals for victims of substance abuse, and provide support services to youth abusing substances and drugs.

Support to women and children

Women and children in particular are the direct victims of domestic violence, crime and sexual and emotional abuse. Bonding social capital is potentially under-emphasised in the Western Cape's Social Capital Formation Strategy. Building strong communities requires strong families. The DSD wants to strengthen families, and increase early intervention and protection services for the vulnerable and those with special needs, e.g. children and families, older persons, persons with disabilities, victims of abuse and violence, persons infected and affected with HIV and Aids.

Inter-generational and parenting skills programmes help to strengthen families

Family strengthening initiatives including inter-generational programmes and parenting skills programmes were started in 2005. A family policy is being developed to strengthen families and create positive role models for young children. The policy will be ready for implementation in 2007/08.

Golden Games Programme for older persons builds social cohesion

Furthermore the Older Persons' Bill was enacted during 2006, with training of staff and service providers commencing this year. In 2006/07 the Department introduced the Golden Games Programme for older persons to strengthen social cohesion. A four-day programme was held in Oudtshoorn in September-October 2006. As further priorities, the Department plans to strengthen inter-generational programmes, expand home-based care services, and increase subsidies for the aged.

Significant progress has also been made to increase the ECD subsidy from R5 per child per day to R6,50 per child per day. Service providers are currently being secured to manage a six-month project to train 233 ECD assistants.

Implementation of Children's Bill, Child Justice Bill and Older Persons Act underway

In 2006/07, the Department also started with the training of staff and NGO staff members on the Child Justice Bill. A service level agreement has been entered into with the University of the Western Cape to provide training to staff and service providers on the Children's Bill. The costing of the Children's Bill and the Child Justice Bill has been finalised, laying the foundation for further work. Moving forward, the key priority over the 2007 MTEF will be the implementation of the three social welfare services legislation, namely the Children's Bill, the Child Justice Bill and the Older Persons Act.

Taking social welfare services to areas of greatest need and highest priority

With regard to taking social welfare services to areas of greatest need, the Department is adopting a phased approach to the implementation of a cost centre model, as part of a multi-year plan. The purpose of the

cost centres is to decentralise services to areas of greatest need, while at the same time provide strategically located service delivery points in order to increase efficiency, accessibility and accountability. The further strengthening of partnerships with municipalities will also be necessary. Over the MTEF the Department wants to increase access to services and redress historical imbalances for those services that relate to management and administration.

Implementation of cost centre model proceeds in phases

Investing in human resources

The 2007 MTEF seeks to consolidate the above efforts and improve the quality of social services by investing in human resource management and implementing strategies to retain and attract skills. The need to recruit and retain social workers is receiving priority at the national level. There are also aims to raise the number of qualified social workers in both the public and non-governmental sectors. As outlined in Chapter 3, funds are added to the PES in the 2007 MTEF so that additional Social Auxiliary Workers can be employed for tasks that do not legally require a social worker.

Need to recruit and retain social workers receives national attention

Tackling substance abuse

Alcohol and drug abuse remain a concern in the Province. The abuse of substances result in violence against children and women, murder, risky sexual behaviour, rape, trauma, absenteeism from school and high failure rates. Crime statistics relating to the 2001-2005 period show a dramatic increase in drug-related crimes, and the involvement of young people in these crimes.³ Research has also shown that the abuse of 'Tik Tik' amongst our youth under the age of 20 years has increased by 50 per cent since 2003.

The 2007 MTEF makes provision for centres that address substance abuse. The Department is developing an Integrated Provincial Substance Abuse Strategy to address substance abuse in the Province. The focus of the strategy is on education and training, developing criteria for the expansion of services for both residential and non-residential services, and ensuring accreditation of substance abuse programmes.

Integrated Provincial Substance Abuse Strategy currently being developed

Over the 2007 MTEF period, initiatives to reduce the supply of and demand for drugs will be strengthened with a special focus on treatment, prevention and community-based services. Building the capacity of service providers, implementing and monitoring service delivery and implementing the National Drug Master Plan will receive attention.

³ Independent online study

Department of Community Safety

Crime statistics for the period from 2001 to 2005 show a dramatic increase in drug-related crimes, violent crimes, and the involvement of youth in these crimes.⁴ In the Cape Metropole, particularly in the Cape Flats area, schools have become recruiting grounds for new gang members and sites for the selling of drugs and inter-gang conflict.

PGDS cites interventions to enhance safety and security as critical to achieving accelerated, shared growth

This criminal behaviour, especially gangsterism and substance abuse, poses an enormous threat to the achievement of shared economic growth and integrated development, because these negative elements undermine social capital, damage the business environment and harm skills development. The PGDS regards safety and security as a path-shaping interventions that will unblock the critical constraints to growth, development and service delivery. Towards these ends, the Department of Community Safety (DCS) recognises its role in creating a liveable and enabling environment for business in the Western Cape.

In supporting the SCFS, the Department mobilises communities to build social networks and encourage community participation. The DCS is responsible for monitoring the activities of the South African Police Services (SAPS), and strengthening their capacity to reduce crime. The DCS mobilises communities through Neighbourhood Watches (Bambanani Unite Against Crime volunteers) and Community Policing Forums (CPFs) to provide additional policing support to the SAPS.

Motor Vehicle Accident Intervention Strategy (MVAI) to reduce road fatalities

In the Western Cape, road fatalities and homicide are the major cause of mortality. Criminal activity along the N2, R300 and the N7 routes is on the increase, and has resulted in the death of motorists. Furthermore, road traffic accidents continue to have serious financial implications for the Western Cape economy in terms of traffic management and health care costs. Trauma from road accidents creates a major burden on health facilities, and negatively impacts on the Department of Health's budget. The 2010 FIFA World Cup is expected to put an additional strain on the Western Cape roads. Finalised in early 2006, the MVAI strategy seeks to extend the coverage of the law enforcement service, and to improve education and communication initiatives. Traffic enforcement is now provided for 24-hours a day and seven days a week.

⁴ Independent online study

Bambanani volunteers for community safety

Every year the Department of Community Safety trains and equips 4 500 Bambanani Against Crime volunteers. The Bambanani volunteers programme started in February 2003. Volunteers are deployed as additional policing support to the SAPS during the festive season, on training, in schools and at various events. Because this training is SAQA accredited, 700 volunteers have successfully signed up as Group D reservists in the police force, while 829 volunteers are in the process of being signed up. The training received by the volunteers has also allowed some of them to enter the private security sector.

700 Bambanani volunteers successfully signed up as police reservists

Over the 2007 MTEF period the DCS will be consolidating its efforts to provide a safe, and enabling environment for people in the Province. The Department wants to train and equip the neighbourhood watch volunteers to support the SAPS in ensuring the safety of tourists and soccer fans attending the 2010 FIFA World Cup. The volunteers will also be deployed in the Safer Schools Project to reduce the incidents of violence and crime in and around schools. The volunteers will be registered in the Department's database, and will be paid a daily stipend of R50. A code of conduct in accordance with the EPWP will be developed to ensure consistent behaviour and discipline among the volunteers.

School safety

In 2005 the Province experienced a marked increase in violence and drug abuse at schools. In response, the DCS partnered with the WCED to develop a comprehensive school safety programme that aims to create a safer environment for learners at schools. As part of the Expanded Public Works Programme, 200 Bambanani volunteers were deployed in 40 priority schools. In the current year, the project was expanded to deploy 500 Bambanani volunteers at 100 priority schools in the Metropolitan area. Six area coordinators and an office administrator have been appointed in Mitchell's Plain. Social crime prevention projects that focus on drug awareness and educational road shows were conducted at 10 schools. Furthermore, new School Safety Committees were initiated at 20 schools. In the coming MTEF period, the DCS intends to provide support at schools where School Governing Bodies (SGBs) are not able to afford private security.

Bambanani volunteers' initiative expanded to 100 priority schools in the Metropolitan area

Safer trains

The Train Safety Project was initiated by DCS, the provincial Department of Transport and Public Works, the Western Cape Community Police Board, the SAPS and Metrorail. The project aims to reduce crime, and create a safer traveling environment for rail communities. Through the EPWP programme, the DCS deployed the Bambanani volunteers at priority train stations and on various trains. Results from Metrorail surveys have indicated the success of the

Presence of Bambanani volunteers proven successful in reducing crime on trains

programme. Over the 2007 MTEF period, the Department intends to deploy an additional 700 Bambanani volunteers (350 per day) to focus on economic and social crimes.

Security services in the provincial government

In November 2005, Cabinet approved a centralised model for the provisioning of security and related functions in the Provincial Government of the Western Cape. As a result of awareness sessions which were conducted by the Department, the 2006/07 financial year saw an improvement in the co-ordination of security services within the Province. Subsequently there has been a gradual decrease in the loss of state property. Private security companies rendering security services in the PGWC are being monitored to ensure compliance with the Private Security Industry Regulatory Authority (PSIRA). Service Level Agreements between departments and the private security companies are also being monitored.

Over the 2007 MTEF, the Department plans to capacitate the security risk management to improve security in the PGWC in respect of employees, visitors, guests and property by minimising loss, damage or injury to property and personnel.

Economic Cluster

Over the 2007 MTEF, the Economic Cluster receives renewed impetus from AsgiSA and the strategic thrusts of the PGDS. The Cluster as a whole elected to prioritise workforce/skills development; infrastructure, especially roads; internal capacity; agriculture; EPWP; and tourism infrastructure.

Department of Agriculture

The labour intensity of the agricultural sector combined with the export potential of local produce creates a vital platform for employment creation and black economic empowerment, especially amongst women. Agriculture has thus been identified as a priority sector by both AsgiSA and the PGDS. Guided by these strategies, the Western Cape Department of Agriculture works to facilitate economic participation, address scarce skills shortages, actively combat poverty and develop young people while ensuring the sustainability of natural resources.

Realising a strategic vision

The National Strategic Plan for Agriculture rests on three core strategies: equitable access and participation strategy; global competitiveness and profitability; and sustainable resource management. The Western Cape Agriculture and Agri-Business Sector Plan aims to incorporate national imperatives while remaining true to the diverse nature of the Western Cape agricultural sector

*Government, Business,
Trade unions and Civil
society developing a plan
for supporting the sector*

needs. These Provincial sector plans were signed off in May 2006 by Government, Business, Labour and Civil Society. The social partners are currently developing a clear implementation plan to assist the Department to deliver services to its diverse clients more effectively and efficiently.

The Department has focused on key areas of support in realising its strategic objectives, including land reform, support to emerging farmers and farm workers, food safety and the promotion of Agri-business.

Expanding the land reform programme

Currently, the Land Reform and Development programme in the Western Cape has achieved a 54 per cent success rate, well above the 19 per cent benchmark set by the World Bank for Latin America. This measure is based on criteria including project sustainability, gender and youth empowerment, capacity development and food security enhancement.

At present the Department is experiencing capacity constraints in delivering technical services. Furthermore, the Department's Agriculture Development Officers require better administrative, legal and agricultural technical skills to effectively service emerging farmers. While the Department continues to adapt its services for the emerging farmer client, it is the continued expansion of the support services staff and their related skills base that will ensure the further success of the land reform programme.

Difficulties in mixing technical, business, legal and organisational support hampers further land reform success

Improving the sustainability of emerging farmers

The objectives of the Farmer Support and Development (FSD) programme are broadly aligned with the key pillars of the PGDS: growth, equity, empowerment and environmental integrity. In line with national and provincial priorities, the Department continues to restructure the FSD programme towards a greater focus on farmer support and training, land reform and food security projects. A key challenge of FSD service delivery is to offer services which satisfy the different needs of both commercial and emerging farmers. Emerging farmers from historically disadvantaged backgrounds require financial and management support in addition to technical agricultural services.

Mentoring programmes support emerging farmers

Mentoring programmes are currently being rolled-out by the Department to help supply farmers and land reform beneficiaries with the skills they require to become sustainable farmers. The Department met its target of providing 12 emerging farmers with mentorship programmes in the first quarter of 2006/07. The capacity to support farmers received a further boost with 45 development officer positions being filled within the Farmer Support Programme. While the remaining 26 positions are in the process of being filled, capacity constraints compounded with the gap in the management skills of Agricultural Development Officers present the biggest threat to the success of the programme.

Developing human capital and transforming agriculture through training

The structured agricultural training programmes initiated by the Department seek to alleviate the skills shortage experienced in the agricultural sector. Through the Department's internal HCDS, a number of staff members and students have already benefited from bursaries, internships and learnerships. In the current year, 65 internal and 25 external higher education bursaries have been awarded and 42 learnerships undertaken.

Bursaries, internships and learnerships boost capacity in the Department and the sector

A bursary scheme for historically disadvantaged individuals commenced in 2006 to aid in transforming the agriculture sector. The structured agricultural training programme will see over 300 students registered annually for a higher education qualification and over 2 500 students enrolled for General Education and Training (GET) and FET level training over the 2006 MTEF period. A marketing campaign targeting black schools will also be launched in 2006/07 to attract suitably qualified learners to study agriculture.

In the meantime the Department is actively seeking comment from various stakeholders on the HCDS and is intent on incorporating this feedback into the Strategy. A study on the impact of training by the Department has already gone to tender.

Facilitating capacity building amongst farm workers

The efficient roll-out of the Farm Worker Development Programme is made possible by the cooperation with, amongst others, national and provincial departments of Land Affairs, Cultural Affairs and Sport and Social Development on joint projects. In total 10 projects are in place including a bursary scheme and an HIV testing project. Additional staff will be appointed by the end of 2006 to implement the referral system. This system aims to improve the coordination of services to farm workers.

Cross-government co-operation improves service delivery to farm workers

Better management of water resources

The effective and efficient management of resources is a key objective of the PGDS. The Department has thus initiated several land care and conservation projects focusing on the sustainable use of natural resources. Through training and education, these projects advance both National and Provincial priorities of employment creation, poverty reduction and capacity building amongst the historically disadvantaged in rural areas. The Department is continuing research on climate change and its effect on the Western Cape agricultural sector.

Department expands farm level support to improve water management

Progress on the appointment of engineering technicians will assist irrigation projects at farm level. The additional technical capacity will also aid water demand management. The commencement of the next Olifants/Doring River water study has been postponed to 2007/08. This is due to the late completion of the previous Olifants/Doring River study and the outstanding documentation from the Department of Water Affairs and Forestry. This study investigates the feasibility of water storage and abstraction of ground water for agricultural purposes.

Ensuring food safety

In light of the conditionality of various trade agreements, food safety and animal health are critical elements of any plan to increase exports of agricultural produce. In addition to this, securing the safety of food for the domestic market has prompted the Department to be proactive in testing for diseases and containing outbreaks. This is evident in the veterinary resources redirected to the containment of recent outbreaks of Avian Influenza and the Department's ongoing measures to contain Classical Swine Fever. The roll-out of the Cape Animal Disease Information System (CADIS) software in September 2006 will further strengthen the monitoring and containment of any future outbreaks.

Better information management helps to monitor and contain animal disease outbreaks

With additional funding, the Department plans to expand export certification and monitoring at processing plants and abattoirs. The Department is also proceeding with plans on the proposed abattoir on the Cape Flats. This facility will further encourage and ensure public food safety and awareness and provide services to emerging farmers, assisting their entry into the commercial sector.

Export certification expanded

Marketing agriculture and promoting business intelligence

Following discussions with Wesgro and the Department of Economic Affairs and Tourism, the Department of Agriculture drafted a document proposing a partnership with Wesgro to expand marketing and business intelligence services by creating an Agri Business Unit. The planned implementation of this project in April 2007 is however subject to funding.

Creation of Agriculture Business Unit planned in Wesgro

Upgrade of agricultural sector data enables better market analysis

Ensuring an informed, competitive sector

The Department's Agricultural Economics Programme gives farmers important information to help them increase their competitiveness and to market their produce. The programme also allows for the creation of a scientific base for analysing market forces and its effects on the sector. Over the 2007 MTEF period additional data sources will be identified and revisions of data sources and resultant studies will be conducted to improve the accuracy of information required in the Department and sector's decision-making processes.

Infrastructure spending in Agriculture

Only 19,0 per cent, or R9,651 million, of the original infrastructure budget for the Department of Agriculture was spent in the first half of 2006/07.⁵ Agriculture's infrastructure spending is mainly for on-farm infrastructure of movable assets. The Department's underspending on infrastructure is primarily due to challenges in obtaining the required buy-in from the communities they serve. In most cases the Department has to engage in lengthy consultation processes with the communities involved.

Department of Economic Development and Tourism

The Department of Economic Development and Tourism (DEDAT) plays a central role in the achievement of the national and provincial governments' primary objectives of accelerated and shared economic growth.

As one of a number of economic development agencies, the Department must tackle the binding constraints identified by AsgiSA which directly impact on the achievement of Departmental objectives. These constraints include:

- The burden that the regulatory environment places on small businesses.
- The shortage of suitably skilled labour which not only impacts on unemployment, but also undermines new investment opportunities.
- Barriers to entry which limit competition and new investment opportunities. These barriers often have a detrimental impact on downstream production and service industries, and they limit the scope for new entrants.

In direct response to these growth constraints, the Department is focusing its activities on: sector support, skills development, enterprise development, and the spatial dimensions of economic development.

⁵ In-Year Monitoring Report as at 30 September 2006.

Sector Support

As one of the base strategies of the PGDS, the Micro-Economic Development Strategy (MEDS) is a collection of economic sector-based strategies for those sectors identified as having good prospects for growth, employment expansion and broad-based black economic empowerment. The MEDS outlines critical interventions for specific growth sectors. These interventions include: the provision of support to sector bodies; the development of infrastructure to improve accessibility and increase competitiveness and growth; and the promotion of downstream activities that broaden the base of economic participation.

Twenty-one sector bodies have been established, involving the Department and key role players in the sector, i.e. employer bodies and private firms. These sector bodies collectively decide on the most appropriate forms of intervention to assist their particular industry. The sector bodies must draw up comprehensive business plans in order to receive funding from the Department.

Two key sectors identified for growth are Business Process Outsourcing (BPO) and Call Centres. The Department, through the sector body 'Calling the Cape', has been instrumental in attracting a number of new investments for BPO. Between 2003 and 2005, the number of agents increased from 6 500 to 11 800, resulting in about 15 000 people being employed within the sector by the end of 2005. 'Calling the Cape' also runs a learnership programme targeted at historically disadvantaged individuals. Ninety per cent of the participants have gained employment in the sector on completion of the programme.

The tourism sector is another significant employment sector identified by the National Government in AsgiSA. The DEDAT has focused on skills development, transformation and the promotion of local tourism opportunities in underdeveloped areas. These empowerment initiatives are targeted at women, youth, rural residents and persons living with disabilities.

Another priority sector identified by the MEDS strategy is Oil and Gas. Downstream economic activities as well as the essential capital infrastructure required to support the sector are being investigated.

MEDS outlines government interventions in growth sectors

Business Process Outsourcing, Call Centres, Tourism and Oil and Gas receive special attention

Cross cutting skills enhancement programmes developed for priority sectors

New RED doors being established in high growth towns of Stellenbosch and Mossel Bay

Extending RED doors to maximise accessibility to client base

Economic Development Units being established in each district municipality

Ensuring Workforce Skills Development

Growth and employment prospects for the Province are also contingent on the up-scaling of the skills levels of the workforce. Over the 2007 MTEF period the Department will focus on addressing the specific sectoral skills requirements of the four priority sectors identified in the MEDS. The Department will also concentrate on enhancing crosscutting skills which impact an multiple sectors. For example, programmes will be targeted at small and medium enterprises in order to reduce the failure rates of start-ups and facilitate the expansion of businesses.

Small Business Support

Through a network of service providers, the RED Doors offer a range of support services to SMME's, ranging from business plan development and start-up support to entrepreneurial and business training. Since 2004/05 the Department has established nine RED Doors, with a further two to be established in Stellenbosch and Mossel Bay within this financial year. One mobile Red Door servicing Bellville, Gugulethu and Grassy Park was launched in conjunction with the City of Cape Town in February 2006. There are plans to launch an additional two mobile Red Doors to service the West Coast and the Overberg region in 2006/07.

The Department has decided to follow a cautious approach with the expansion of its RED Door initiative. As a result the original target of 35 RED Doors has been scaled down to between 18 and 20. Over the 2007 MTEF, the Department is planning to open an additional two to three Red Doors per year in conjunction with municipalities. A cost-sharing model is being proposed between the Department and respective municipalities. Furthermore, the location of these Red Doors is dependent on population densities in order to ensure economies of scale for the services being rendered.

Supporting local economic development

The PGDS also places emphasis on the need to address the fragmented spatial economy. Particularly in rural areas, the growth prospects of many enterprises are limited by their geographic location and distance from transport infrastructure and major business hubs. The Department's key strategy to support local economic development is "Die Plek Plan" (PP). An Economic Development Unit will be set up in each of the five District Municipalities, excluding the City of Cape Town. In each district this office will work together with municipalities to identify and develop viable market opportunities. Furthermore, PP managers will be appointed to build capacity in rural areas by providing technical support to municipalities on the development of their Local Economic Development Strategy (LED). The PP managers will also act to put

appropriate institutional arrangements in place for the delivery of the LED programmes.

The Rural Economic Assistance Fund (REAF) provides further support to rural economic development by providing funding to small businesses. REAF is focused on expanding community-based and community-owned enterprises and cooperatives. Projects that may be considered for funding will have the following characteristics:

REAF provides to SMEs in small towns

- Good alignment with provincial and national policy.
- Long-term business sustainability.
- Strong market links.
- Meaningful socio-economic impact.
- Emphasis on ensuring strong participation by previously disadvantaged persons.

Department of Environmental Affairs and Development Planning

Developing and implementing the PSDF

Under the leadership of the Department of Environmental Affairs, the Provincial Spatial Development Strategy (PSDF) has become a strong informant of the PGDS and its associated strategies. The Framework begins to show how to direct the location and type of investment across the Province to improve the structure and performance of the space economy. Aside from the metropolitan area, two other significant areas have potential to be 'regional motors' which grow and defuse the benefits of growth. The regional motors are the Saldhana-Vredenburg area and the area between Mossel Bay and Plettenberg along the South Cape coast. A number development corridors are also identified – Olifants River and the Breede River. The economies of the corridors are based on agriculture production and the processing industries. This framework needs to inform the recommendations of the Strategic Infrastructure Plan (SIP) and the MEDS for infrastructure investment, as the SIP and MEDS are further developed and deepened.

The PSDF also supports the Breaking New Ground (BNG) and Sustainable Human Settlement Strategy (SHSS) by providing more detail on the characteristics of the desired internal structure for human settlements. Furthermore, the Framework starts to identify the instruments that local and provincial government can use to achieve these objectives, such as the placement of no-development boundaries (so-called 'urban edges') around urban settlements. Together with the Housing Department, the Department of Environmental Affairs Development Planning (DEADP) will refine the instruments as the SHSS is rolled out.

Departments of Housing and Local Government and Environmental Affairs to work together to restructure urban settlements

Department provides support to high growth towns to align planning to PSDF

Environmental Affairs is promoting the PSDF in four ways. Firstly, it is embarking on a communication campaign towards the end of 2006/07. Secondly, it has developed training material on the Framework for officials and politicians, geared especially to municipalities. A training drive will occur early in 2007. Thirdly, it is producing manuals for municipalities on how to use some of the instruments and achieve certain objectives in the PSDF, e.g. social and functional integration. Fourthly, the Department is transferring resources to high growth towns to develop their Spatial Development Frameworks (SDFs) and Integrated Development Plans (IDPs) so that these local plans align better with the PSDF. Municipalities benefiting have to show how they will use their vacant land to increase densities and integrate land uses and social groups in the area. These municipalities must also define urban edges.

Streamlining application processes for land development and enforcing decisions

Province lobbying national government for leeway to streamline land development approval processes

The Department has been unable to move the Integrated Law Reform Project (iLRP) forward as originally planned. The iLRP seeks to streamline the current application process for land development. The aim is to replace three separate approval processes required for development permission – land use, environmental, and heritage – with a single system of parallel decision-making. But to work, the iLRP must be consistent with national legislation in this area. The National Environment Management Act (NEMA) and the National Heritage Resources Act are, however, designed to be implemented through separate processes handled in sequence. To date, the Department has been unable to work around the national provisions or achieve changes in the legislation that will allow for a single, parallel process. At the political level, the Province is lobbying to be given leeway to act outside of certain national provisions and has successfully enlisted the support of the Deputy Presidency. Streamlining land development approval in the Province will go a long way to removing the regulatory constraints to shared growth in the province – one of major binding constraints identified by AsgiSA.

Department explores NEMA Regulations for ways to streamline development approvals

In the meantime, the Department is working on developing two enabling provisions in the new NEMA regulations that can be used to speed up decision-making on applications - the so-called “supplementation” and the “co-operative governance” provisions. The first provision allows the Department to, in certain areas, exclude certain activities from the list of activities for which authorisation is required.⁶ Under the second provision, information on the development impact of an application generated in the NEMA process can be shared and used in the decision-making governed by other development control legislation. This sharing will allow

⁶ The list of activities for which authorisation is required is termed “prohibited activities”.

decisions to be considered in parallel by the different agencies, which could speed up the application process. However, the fundamental blockage arising from having to make decisions in a particular sequence still remains.

Energy and water constraints

The Department is drawing up two strategies to deal with two of the main constraints to shared growth facing the Province – energy and water. The strategies will lay out responses across all government agencies active in the Province. The energy strategy will address both demand and supply issues. Some of the measures being considered are the construction of all new Provincial social and administrative facilities according to energy efficient design principles, and the regulation of subsidised housing to follow similar design principles. For example, mandatory solar water heating for all new housing is being considered. The Province's response to the water constraint will mainly be contained within the Climate Change Response Strategy, the action plan for which is currently under development for release in 2007/08.

Cross-government strategies being developed to alleviate energy and water constraints in the Province

The 'Environmental Economy'

The Department is developing a strategy on how the delivery of services and the building of infrastructure in more sustainable ways can stimulate economic activity and job creation. This relationship between increased sustainability and economic growth is referred to as the 'environmental economy'. When the conceptual work is completed this year, the Department will work with DEDAT to implement the strategy. As part of this initiative, the Department is researching how markets for goods produced from recycled materials can be expanded.

Building infrastructure in more sustainable ways can stimulate job creation

CapeNature

The key pillars of the PGDS are growth, equity, empowerment and environmental integrity. These interrelated pillars are aligned with the recognition by the Western Cape Nature Conservation Board (trading as CapeNature) that biodiversity conservation and socio-economic development are linked. Its management of the mountain catchment areas and ability to create jobs are key drivers of shared growth and integrated development in the Province.

The Department is supporting CapeNature in developing a comprehensive, preventative fire fighting strategy. According to a 2005 report⁷ on climate change, the Province's climate is likely to become warmer and drier, which are factors that will increase the risk of wildfires. The fire prevention strategy is aligned with the PGDS which recognises that the Province has to ease and adapt to

Fire prevention vital to easing climate change risks

⁷ Status Quo, Vulnerability and Adaptation Assessment of the Physical and Socio-Economic Effects of Climate Change in the Western Cape (2005)

environmental risks brought about by climate change. CapeNature is also working on increasing its fire fighting capacity through a continued partnership with Working on Fire (National Expanded Public Works Programme) and training of fire fighting staff. As part of improving fire management capacity, CapeNature aims to improve its rapid response systems and specifically to increase the use of helicopters in aerial fire fighting. Fire management and the eradication of alien vegetation are strategically important to maintain healthy water catchment areas. A sustainable water supply is crucial to dealing with the energy and water 'path-shaping' interventions of the PGDS.

Province continues to increase investment in ecotourism

The upgrading of the infrastructure (roads, water and electricity supply, sewerage) of De Hoop Nature Reserve is one of the initiatives to promote ecotourism development. Unleashing the tourism potential and upgrading the existing tourism facilities can create a sustainable revenue stream and attract tourism investors. In the previous budget period, CapeNature prepared a detailed recovery plan to deal with the cash flow issues it faced and to become financially stable. By the end of that financial year, CapeNature had effectively dealt with its cash flow constraints and improved its financial performance. CapeNature has also succeeded in drawing in funding from several external sources, but needs to improve its project management capacity to make the most of externally funded opportunities.

Department of Housing

The Sustainable Human Settlement Strategy

Department releases Sustainable Housing Strategy

In the first part of 2006, the Department released the SHSS. The Strategy guides the settlement building actions of the Department, and more broadly the Provincial Government, over the next five to ten years. The Strategy describes how:

- Municipalities can use the subsidy instruments available to create settlements that meet BNG objectives.
- The Department directly implements pilot projects in order to develop and demonstrate new approaches. The new approaches will endeavour to leverage private resources into subsidised housing development more than in the past.

Department to direct subsidised housing to areas of high economic potential

The SHSS recognises that a dominant key factor in the sustainability of new housing neighbourhoods is the economic performance and viability of the settlements where they are situated. The Department is in the process of developing a defensible sustainability framework which it will use to motivate and enforce its geographic targeting decisions for housing subsidies to applicant municipalities.

The SHSS calls for the Department to phase itself out of “project linked” subsidies to municipalities. Project linked subsidies tend to be used to provide relatively low density neighbourhoods through green field development at the periphery of the towns, distant from social service and economic opportunity. Currently, some informal settlements and backyard rental accommodation in older townships tend to be better located and have more appropriate densities than the new, green field developments. However, the physical form of the informal settlement and backyard rental is problematic. Therefore the Strategy calls for greater use of the Upgrade of Informal Settlement Programme (UISP) instrument for *in situ* upgrade of informal settlement, and for the development of instruments to subsidise the improvement of backyard stock and to regulate renting.

Increased focus on upgrading informal settlements

According to the BNG strategy and the SHSS, an incremental approach to subsidised housing delivery is vital to increasing the rate at which the housing backlog can be addressed. Using this approach, the Department can provide more subsidised units with a fixed subsidy amount than would be possible using full subsidies within the timeframe conventionally used. The approach does this by decreasing the rate at which subsidies for the building of the formal houses, or ‘top structures’, flow to beneficiaries. The Department then uses the subsidy amount ‘retained’ to increase the rate at which officially demarcated land with electricity, water and sanitation services can be supplied to those eligible. By doing this, the approach essentially prioritises the rapid delivery of three key aspects of housing: a spatial location within a network of urban economic opportunities, security of tenure and the provision of basic services. Formal shelter is deprioritised because informal shelter can be used as a substitute in the medium term, especially if technical and material support is provided to beneficiaries for the construction of informal shelter.

Incremental approaches emphasised

The Strategy also points to the restructuring of the central areas of cities and towns, or “urban cores,” to achieve higher densities and greater functional and social integration. Because the cost of land is higher in urban cores than on the periphery and the cost of constructing higher density residential buildings is higher than single residential units, private resources have to be leveraged. In order to attract private resources, it is necessary to target the so-called ‘gap market’ – households earning between R3 500 and R7 000 per month. In some cases, however, lower income households can be cross-subsidised. Targeting lower income households is also more feasible when employer resources can be mobilised. Subsidy instruments available for urban core restructuring include Social Housing and Credit-linked Subsidies. The Social Housing instrument is aimed at the building of three to four storey blocks of rental accommodation run by social housing institutions and catering mainly to the gap market.

Key focus on increasing access to housing in urban cores

Provide training to officials on assembly of government subsidy instruments

The Department will also need to increase its capacity to develop and implement the strategy. Officials need more knowledge about how available subsidy instruments can be assembled to achieve desired outcomes, while communities need better understanding of how the instruments work in order to understand what is possible. The Department will also need better demographic information for housing planning. Where public and private resources are to be combined for certain projects, more advanced financial modeling capability will be required.

Additional subsidy funding required for accelerated delivery

Accelerated housing delivery

Over the last two years the rate of delivery of subsidised housing has increased dramatically, and the Province is now in a position to accelerate provision beyond the current best rate of 16 000 units per year. To do this, however, the Province requires additional resources for the subsidies and therefore has requested the national government to advance future conditional grant payments to it over the next three years to scale up delivery by 5 000 units per year. The main subsidy instrument being proposed to accelerate delivery is still the Project-linked Subsidy, although in a number of cases the housing will be built on better-located land than in the past.

The accelerated programme proposes that 40 per cent of housing will be funded through the UISP. Not all UISP subsidies will be used to fund *in situ* upgrades; part of the funds will be used to provide housing in green field developments at the periphery to those beneficiaries who cannot be accommodated within the original settlement.

Incremental housing approaches

When the Department grants UISP applications, it only grants the first three phases of the UISP process, which essentially covers the supply to an individually serviced site, without a top structure. The grant for the top structure will only be provided *after* the serviced site has been put in place, thus giving scope to the Department to provide subsidised housing more incrementally.

Pilot projects for urban core restructuring

Restructuring urban cores in settlements

The Department is setting up a number of housing pilots to explore mechanisms for restructuring the residential component of downtown centres. The pilot projects cover employer-funded subsidised housing and housing for the gap market.

With regard to social housing, the cost per unit and the associated subsidies required are higher than in the case of traditional housing instruments geared towards the funding of single residential units (such as the project-linked subsidy). Covering land costs for social housing has also proved difficult. For these reasons, the Department has begun to move fairly slowly on providing social housing. The

Department is trying to secure well-located land and buildings owned by the government at prices below market value to use in the construction of social housing.

In the first part of 2006/07, the management of the national housing pilot N2 Gateway project was taken over by the national Housing Department. The Province is now in the process of tying up the legal aspects of the handover. In the future, the Department will give support to the N2 Gateway project where necessary. National government will continue to channel national funding for the N2 Gateway project through the Province if a dedicated funding mechanism for the project is not established.

Management of N2 Gateway taken over by National Government

Dealing with bulk and connector infrastructure constraints

The backlogs in the supply and maintenance of bulk and connector infrastructure are fast becoming a constraint for housing delivery. 'Bulk infrastructure' refers to the large pieces of capital equipment needed to produce services for an entire settlement, e.g. dams and reservoirs in the case of water services. 'Connector infrastructure' refers to the pipes or wires and other equipment needed to link the bulk infrastructure to local neighbourhoods. According to the Department, at the current rate of housing delivery this infrastructure will be pushed to absolute capacity within two to three years and thus be vulnerable to collapse. Aside from increasing the amount of Municipal Infrastructure Grant (MIG) funding coming to the Province, which is under the control of national government, the solution lies in improving local asset management and securing more local resources for maintenance and supply. Improving local infrastructure management and financing should become key aspects of the Department 'hands-on' capacity building programme, which the Department plans to roll out over the 2007 MTEF.

Over the last two years, the Department supported municipalities to eradicate the "bucket system" in established urban communities. Objectives have largely been met, but due to geotechnical conditions, the costs of eradicating buckets in Kannaland and Theewaterskloof has outstripped available national funding. Solutions are still being sought in these areas. Although the sanitation backlogs in the country constrain provincial economic growth, the Province does not have sufficient resources to play a direct role in financing the delivery of bulk and connector infrastructure. The Province does, however, have a role to play in assisting municipalities to package affordable delivery programmes for municipal services, especially in urban settlements.

Affordable solutions for eradicating bucket system sought in certain areas

Department of Transport and Public Works

Progress with the Strategic Infrastructure Plan

Released for public comment in the first part of 2006, the Strategic Infrastructure Plan (SIP) describes supply and operational initiatives in a range of infrastructure sectors present in the Province. Importantly, the SIP does little to identify gaps in the plans and activities of these infrastructure agencies, including provincial government agencies. If infrastructure delivery and management is to improve, this gap will have to be filled in some way. In the future, the Province will review the substance of its departments' infrastructure plans to check whether all strategic issues are adequately addressed.

SIP identifies significant projects to boost economic growth

On the basis of its exploration of existing initiatives, the SIP identifies a number of significant projects. The projects are deemed significant either because of their direct impact they will have on shared growth due to their scope and size, or because of their indirect impact by means of changing infrastructure supply and investment practices in the Province. Some of bigger projects are beyond the fiscal capacity of the supply agencies, including the provincial departments. For these projects, innovative resourcing will be required. The Department aims to publish a summary of the first draft of the SIP and a list of the significant infrastructure projects towards the end of the year.

Public Works Accommodation Plan

The Department's drive to improve asset management started in the 1999 with the compilation of a comprehensive register of the Province's property. Municipalities' lists of provincial assets, the Deeds Office's records and the Surveyor General's records were amongst data surveyed in compiling the register. Since 1999, the asset register has been placed on a computer-based system and undergone a number of rounds of verification. In the latest round of verification, the Provincial Department's register is being compared to municipal records and the National Department of Public Works' records. This verification is to ensure that the property tax liabilities on provincial property are clearly known before National Public Works transfer the responsibility of paying these taxes to the Province. To avoid unfunded mandates, the National Public Works would need to transfer the corresponding funding.

Provincial Government verifies its register of provincial properties

The Department undertook the first phase of the Provincial Strategic Accommodation Plan in late 2003. The Department produced an overview of current status of the Province's asset portfolio released in early 2004, including maintenance backlogs.

To pave the way for the introduction of 'user agreements' between the line departments and Transport and Public Works, the custodian of the Province's assets, the Department informally allocated property

to line departments. User agreements will allow the sharing of asset management responsibilities between users and the custodian in line with good practice. The Department also compiled user departments' property portfolios as part of the first phase of the formulation of the Strategic Accommodation Plan. The Department is currently in the process of procuring a service provider to audit the property portfolios and investigate the line departments' current accommodation and delivery infrastructure needs, as part of the second phase of formulating the strategic Accommodation Plan.

First step in Strategic Accommodation Plan is to compile departments' property portfolios

In line with national guidelines, a forward-looking 'Immovable Asset Management Plan' will flow from the audit of the user departments' property portfolios. The Plan will guide the planning, acquisition, operation and disposal of accommodation and delivery infrastructure. The Department also aims to develop a set of performance management frameworks for fixed asset management. Providing the procurement goes according to schedule, the final strategic Accommodation Plan should be completed in the second half of 2007.

Building the capacity to deliver infrastructure

The Department's capacity to provide professional services to infrastructure projects is being severely tested by the high demand for these services in both the public and private sectors. To address the high demand for these professional services, the Department is developing an innovative programme of in-service training for recent graduates. Under the programme, retired professionals will tutor and mentor unregistered graduates. The Department is also putting in place incentives to retain the teams of professionals current working for the Province.

Providing in-service training for graduates

Integrated Transport and 2010 FIFA World Cup

In the period leading up to 2010, the Department will take the Province's "integrated transport" objectives forward by creating the systems needed to host the 2010 FIFA World Cup. The focus will be on the metro area and to some extent the broader metro functional region which includes part of the Winelands and West Coast Districts. So far, Athlone, Philippi and Stellenbosch have been identified as practice venues. The Department and the City will seek to speed up the installation of general transport systems for Western Cape event-goers in the city. The Department and City of Cape Town will also focus on meeting specific FIFA requirements.

2010 FIFA World Cup a catalyst for integrated transport

A joint Province-City Transport Steering Committee, involving the political heads responsible for transport, has been established. The Committee is an interim means for bringing together transport bodies with jurisdiction in the City and their own resources to plan and budget. A 2010 Committee has been established and a number of integrated transport projects have been identified together with their

National, provincial and local governments combine funding for WC2010 transport projects

budgets and possible funding sources. The National Public Transport Infrastructure Fund (PTIF) will channel money directly to the City, as a key source of funding for the projects. To date national PTIF funding has been secured for a number of projects:

- The airport link along the N2, which includes a dedicated lane for busses and minibus-taxis and the Hospital Bend pre-selection scheme, a scheme designed to decrease travel times at Hospital Bend by minimizing lane-crossing.
- Road infrastructure and Non-Motorised Transport (NMT) improvements along the Klipfontein Corridor.
- Intelligent Transport Systems in the metropolitan area.

The Province is making significant contributions to the projects cited above. Total transport costs for the Province for FIFA WC2010 are estimated at R1,857 billion, with the Province responsible for R1,035 billion of this. R452 million is committed while an additional R583 million is requested via the PTIF. The Provincial Department's project proposal to the PTIF in September 2006 included four types of projects:

- Stadium precinct infrastructure
- Long distance bus facilities
- Non-motorised transport
- Travel demand management
- Transport Corridors and Public Transport priority lanes

The Province, together with the V&A Waterfront, is funding the building of the Granger Bay Boulevard. The Boulevard will link the harbour, V&A Waterfront and the Green Point Stadium areas.

The rail network is seen as the crucial backbone of the public transport system in the Metro area. The road-based system will either support or supplement rail. Leading up to the WC 2010, the South African Rail Commuter Corporation will invest significantly in rolling stock and in the upgrade of stations and systems for communication and signaling.

Road infrastructure

The provincial road network, some 6 700 km of surfaced roads, 10 000 km of gravel roads and 15 000 of minor roads, together with weighbridges, is a crucial part of the transport system of the Province. To form a more integrated system with public transport, roads need to work with rail and air modes to open up economic opportunity. Roads can also be used to convey public transport where efficient, and to provide the means for private transport when public transport is not feasible or appropriate. The network can provide the basis for a developing and growing the Provincial economy by efficiently

Rail network to be strengthened in the City of Cape Town

linking places of production to markets and facilitate the easy circulation of goods, services and people in regional and urban economies. Far-flung communities not strongly linked into the Provincial economy also require roads to access social and other types of services.

Between 2004/05 and 2006/07 the roads budget grew substantially from R653 million to R1 187 million. The Department is now starting to roll back the maintenance backlogs that have built up since the late 90s, and to upgrade roads and build new interchanges. The Roads Branch engages in a number of maintenance and upgrade activities:

- Routine maintenance covers lower-order activities such as grass cutting, litter collection, road marking and gravel road blading. In 2006/07, routine maintenance consumes approximately a quarter of the roads budget.
- Periodic maintenance activities are resealing and regravelling. Some construction activities i.e. rehabilitation and upgrading of gravel roads and local access roads, are grouped with periodic maintenance because their role is essentially to keep the network functioning at current levels of performance. 56 per cent of the budget is taken up with periodic maintenance activities and their related construction activities.

The Department divides its resources for maintenance and associated upgrading across the road network so as to minimise the “total transport cost” to society. The total transport cost is the cost to road users of running vehicles on the road and to government of providing and maintaining the network. Lowering these costs allow society to use more resources on things other than transport. Lower total transport costs are also good for growth and development as it improves the viability of economic activities which rely on transport.

When allocating resources for higher order maintenance activities and related upgrading activities to the network, the Department uses a computer-based optimisation model to increase its precision. Higher order activities tend to be directed to areas where traffic movement is greatest and thus to surfaced and well-used gravel roads, especially those used for tourism and agricultural freight.

The Department also uses its resources to prevent some of the less well-used gravel roads and surfaces from collapsing. This is because once the road has collapsed is very costly to get it back to functioning state again because essentially rebuilding is required.

Another key developmental function of the Department is to upgrade roads which may not be well used now, but when upgraded would open up economic possibilities in the places the road serves. The upgrading of the Gansbaai-Bredasdorp road is an example of this kind of developmental activity.

Department begins to roll back maintenance backlogs

Department allocates resources to minimise total transport cost to society

Less well-used gravel roads kept from collapsing

Department upgrades potential economic road links and access roads

The Department also dedicates a small portion of its budget to upgrading access roads to remote communities.

Public transport restructuring

Taxi regulation systems overhauled over the past year

Following the Commission of Enquiry into the Taxi Industry in 2005, the Department began overhauling the institutions for regulating the taxi industry in the Province. Systems have been redesigned to increase the number of the taxi licence applications that are processed in a day and to prevent fraud and negligence. Facilities and services offered at the licence authority offices are being improved, e.g. vehicle testing will now be offered. A new Board has also been appointed. In addition, the Department has established a conflict resolution mechanism for the industry and placed this at an arm's length from the officials in the Department involved in restructuring the public transport system. These initiatives put in place some of the preconditions for taxi recapitalisation and public transport restructuring.

Cape Town restructuring plan may need to be changed to address critical challenges

The objectives of restructuring of the road-based public transport system to improve levels of service and accessibility along the key long-haul routes in the City and to tender out subsidised contracts along these routes remains valid. The vision is consistent with published national and provincial policies on empowerment, public transportation transformation, taxi recapitalisation and the identification of an integrated transport system as a path-breaker for economic growth. The implementation plan, however, faces critical challenges which may necessitate changes to the plan. For example, the enforcement of regulation against illegal operators is extremely difficult. Major increases to public transport capital and operating subsidies have not occurred and funding for reconfiguring transport infrastructure is not secured.

Outside of Cape Town, the Department provides support to municipalities by:

- Providing transfers for the planning and construction of public transport and non-motorised transport infrastructure.
- Formulating 'mobility strategies' for selected geographic areas. Mobility strategies identify the mobility problems in an area and put forward exclusively transport solutions (rather than land use solutions) to these problems.
- Giving financial and technical support for the drafting of public transport plans and integrated transport plans and offering technical review of the results.

Department to redefine its role in non-metro areas

Over the 2007 MTEF, the Department will rethink its role in non-metro municipalities. The Department will give more attention to the strategic and conceptual basis of municipal public transport planning. Some conceptual work on improving mobility has occurred in George

and the Central Karoo. Furthermore, the Department aims to involve the National Department more closely in efforts to address the operational resource constraints which municipalities face.

Expanded Public Works Programme

In 2005/06 a total of 28 000 EPWP work opportunities were created in the Province, 3 000 in excess of the national annual target for the Province. 7 700 job opportunities were, however, excluded from EPWP provincial and national reports due mainly to poor data collection at project level. While verifying performance statistics for 2005/06 in the first part of 2006/07, the Department greatly improved the reporting process for EPWP. Reporting is important as it is the key way that the government ensures the job opportunities created under the EPWP banner meet all the EPWP requirements, especially the training component. The EPWP Unit in the Department of Transport and Public Works will continue to sharpen reporting over the year, especially in the health sector and with certain municipalities, including the City of Cape Town.

28 000 EPWP work opportunities created in 2005/06, but reporting problems exist

The Unit has also built up a good strategic understanding of the sectors and delivery activities where new EPWP work opportunities can be developed. These sectors and activities include the delivery of subsidised housing, and the routine and periodic maintenance of gravel roads. In the medium term, infrastructure delivery at municipal level is another key area for EPWP growth in the Province.

EPWP can be extended in the delivery of subsidised housing and gravel road maintenance

Currently the Community Based Public Works Programme (CBPWP) Unit is restructuring and shedding its direct infrastructure delivery and maintenance functions. The refashioned unit will consist of components that:

CBPWP Unit restructuring

- Advise delivery agencies on how to develop EPWP programmes on the basis of their normal service delivery plans.
- Develop and set up training programmes.
- Assist agencies to implement EPWP programme especially to link training programmes to skill needs in a particular locality.
- Monitor and evaluate projects.

AsgiSA has suggested that an economically sound way of boosting the EPWP is to increase the extent to which EPWP projects are used to build roads. Additional national funding is made available for the upscaling of the EPWP on roads. The Roads Branch aims to scale up the EPWP in three ways. Firstly, the Branch will introduce the 'length man system' into a portion of the routine maintenance operations. In terms of the length man system, a beneficiary for the local area is given a portion of road to maintain for a relatively extended period (say two years). The prolonged period gives the beneficiary more income stability and allows for meaningful training. Under the current system, contract periods are shorter and beneficiaries may not

Road Branch to introduce a "length man system" for routine road maintenance

be drawn from the areas in which maintenance occurs. Secondly, the gravel road upgrade programme will be sped up and innovative techniques and materials will be developed to increase the labour base of roads construction. Thirdly, the small black contractor development programme will be expanded.

Bursary Scheme

The Department has performed beyond its targets for the bursary scheme, and plans to reach its 2008/09 target of 250 bursaries one year earlier than planned. The scheme is aimed at boosting high-level skills in the infrastructure sector, although its impact will only be felt in the medium to long term.

Learnership 1000

To address skills shortages in the built environment sectors, in the main, and to boost employment in the Province, the Department is co-ordinating the delivery of large number of learnerships. The target is set at 1000 learnerships per year. The Department aims to manage the supply of 800 'trade-specific learnerships' in fields such as carpentry, masonry and plumbing, and 200 'New Venture Learnerships'. The latter are designed to tutor entrepreneurs seeking to establish small businesses in services such as electrical, project management and waste management. Under the programme, learners will be placed in or provide services to government agencies. Learnership 1000 hopes to draw on resources from the National Skills Fund to cover the training aspects of the programme. At present, the 722 people are participating in the "trade-specific" learnerships as the first intake of this part of the programme. The Department plans to launch the New Venture Learnerships early in the new year.

Department is co-ordinating the delivery of learnerships to address skills shortages in built environment sectors

Infrastructure spending in the Department Transport and Public Works (DTPW)

During the first half of 2006/07, the Department of Transport and Public Works spent R477,226 million on infrastructure, or 36,3 per cent of its infrastructure budget for 2006/07.⁸ Although spending was low in the first two quarters, a number of contracts were awarded during this period. A sharp increase in expenditure is thus expected in the latter half of the financial year. In the past, the Department has successfully spent their infrastructure allocation.

Given that the DTPW is the major implementing agent of infrastructure at the provincial level, the Department was selected for the second phase of the IDIP. In July 2006, National Treasury also expanded the number of technical assistants employed in the Western Cape to two and half persons in order to employ a full time technical assistants at the DTPW. The half person will be made available by National Treasury as ad hoc professional services are needed.

⁸ In-Year Monitoring Report as at 30 September 2006.

Governance and Administration Cluster

As a Cluster, the Governance and Administration Departments are prioritising critical investment to strengthen the provincial government internally thereby improving its capacity to deliver effectively and efficiently. The 2007 MTEF priorities of the Cluster include security risk management for Provincial Government of the Western Cape (PGWC) employees and facilities, internal audit capability in Departments to strengthen financial governance, and strategic capacity in the Department of the Premier.

Department of the Premier

The Department of the Premier (DoTP) provides strategic leadership and direction to the Province to ensure holistic governance and deepening democracy in pursuit of the Province's vision of a "Home for All". A central concern of the DoTP is to ensure that the Provincial policies and strategies are aligned to the national framework, including the National Programme of Action and AsgiSA, and furthermore to promote the implementation of the Intergovernmental Relations Framework Act.

DoTP promotes holistic governance in the Province

During 2006, the DoTP worked in consultation with social partners to draft the PGDS in an effort to stimulate economic growth, reduce unemployment and poverty. In October 2006, the PGDS was published as a Green Paper for public comment and information. The document is expected to be released as a white paper (final policy) in January 2007. This process for the development of the PGDS is designed to give space for interdepartmental, intergovernmental and public participation and consultation in its development.

Apart from driving the PGDS process, the DoTP will work towards the following in 2007/08:

- Strengthening the capacity of the Department of the Premier;
- Ensuring youth development in the Province, and
- Enhancing planning, coordination, communication and monitoring and evaluation.

Strengthen the capacity of the Department of the Premier

The ability of the Provincial Government to improve service delivery relies heavily on human capital. The re-engineering process resulted in the establishment of three programmes in the DoTP:

- Governance and Integration
- Institutional Improvement and Development
- Departmental Operations

New establishment reflects broader representation in the SMS

These three programmes are designed to enable the Department to realise integrated, holistic governance in the Province. The re-engineering is also intended to address equity and ensure that the new establishment better reflects broader representation in the Senior Management Services (SMS). Currently the DoTP has filled approximately 92 per cent of SMS posts. The challenge is to fill the vacant posts (level 1-12) that improve the functional role of SMS. In this way the DoTP will fulfill its required policy and constitutional obligations. The remaining vacant level 1-12 posts (totaling almost 250 vacancies) will be filled in phases.

Efforts to improve management capacity continues

Furthermore, the Department is developing a social plan that will help senior managers who could not be appointed in the new structure. A number of other efforts are planned as part of the Department's own internal social and human capital development strategy. The Department will continue to use Project Khaedu as an action learning programme with the purpose of improving SMS management skills. The restructuring of the Cape Administrative Academy would enable the institution to become financially viable, in addition to offer course content that will make employees more effective and efficient in executing their duties. The Premier's Excellence Awards and the Long Service Awards will also help to strengthen the Department's initiative to build social and human capital in the Province.

Ensure Youth Development in the Province

The Province continues to commit itself to improving the lives of young people via various interventions and initiatives contained in the provincial departmental strategic plans. The challenge is to ensure that the Western Cape Youth Commission fulfils its legislative mandate. The establishment of the Commission as an autonomous public entity under the DoTP is a great step that will cement the role of young people in the policy development process and deepen democracy. However practical mechanisms need to be applied to address institutional capacity and support. The DoTP thus remains a critical resource and support board.

Youth Commission works to support and enhance youth development

Enhance planning, coordination, communication and monitoring and evaluation

The DoTP has a unique mandate to monitor and evaluate provincial government policies and strategies. To fulfil this role, the DoTP has developed a province-wide Monitoring and Evaluation System and compendium of indicators aligned with the PGDS that will assess the impact of provincial government policies. The drive is to measure the outcome and impact of policies rather than measuring their input and output.

Provincial Monitoring and Evaluation System to develop transversal indicators to assess impact

The growing demand for the Department's services to client departments coupled with the appointment of new staff has boosted

the use of information technology (IT). Thus the DoTP seeks to expand its IT capacity.

The Premier will also continue to engage citizens through social dialogue and further enhance public participation by using izimbizo as an instrument to gather information on how citizens view government performance. The Department will offer strategic support on how to align and integrate AsgiSA, National Spatial Development Framework (NSDF), PGDS, PSDF, and IDP's. More importantly, the Department will provide leadership in its preparation for the 2010 FIFA World Cup. Furthermore the DoTP will support the finalisation and implementation of the SIP and the SHSS.

Public participation remains key to ensuring effective service delivery

Department of Local Government

Disaster Management

The Western Cape Province is prone to thirty-eight disaster risks, predominantly veld and informal settlement fires, extreme weather events, droughts, and urban and flash flooding. Disaster Management aims to assist the most vulnerable communities by mitigating the impact of these disasters and strengthening the response, recovery and relief provided to these communities. The Department, in partnership with the Development Bank of Southern Africa, launched the Training, Education and Awareness Programme to better equip these communities to deal with these disasters.

Training provided in partnership with DBSA to better equip communities to deal with disasters

By strengthening its institutional capacity as required by the National Disaster Management Act (DMA), 2002, the Province has improved its effectiveness in dealing with these disasters over the past year. A joint national and provincial funding arrangement is in place for the implementation of the DMA.

Stronger institutional capacity has resulted in more efficient disaster management

Furthermore, the Department has allocated approximately R22 million for implementation of the Disaster Management Act. This allocation for the implementation of the DMA consisted of a risk and vulnerability assessment; the drafting of a Provincial Disaster Management Framework; the development of a disaster management information management system; a satellite-communication system and the establishment of a Provincial Emergency Management Centre.

Capacity Building

The Department operates a number of capacity building programmes to provide assistance and support to municipalities. In 2005, a capacity assessment of municipalities conducted by the Department revealed that municipalities in the Western Cape have limited capacity to fulfill their constitutional, legislative and developmental mandate, and lack funding to fill key technical vacancies. In response, the Department proposed the pooling of current technical expertise

Extended assistance to municipalities lacking capacity

within local government to facilitate skills sharing across municipalities. Skill areas identified for sharing include Local economic development, budgeting and the formulation of IDPs.

In order to address this capacity problem, the Department developed a capacity building strategy to assist municipalities in realising their constitutional and legislative mandate. In 2006/07, the Department is focusing on councilor development to improve service delivery. The implementation of the capacity building strategy will cost R14,5 million over the 2006 MTEF period.

Monitoring and Evaluation

The Department has a newly established directorate responsible for monitoring local government transformation, and financial viability. The Department is designing a web-based municipal monitoring system to ensure efficiency in monitoring and evaluation. This system is envisaged to incorporate both provincial and municipal monitoring requirements and an IT-based performance management system. R2 million has been budgeted for the design and infrastructure of the system in the first year of the 2007 MTEF. A further R1 million per annum has been budgeted for the remainder MTEF period to cover operational costs.

Provincial Treasury

The Provincial Treasury (PT) has the challenging task of creating a balance between enabling a flexible, supportive environment in which Departments can actively pursue objectives and goals aligned with the PGDS and AsgiSA, and ensuring the prudent, effective and efficient financial governance of the Province. The Provincial Government has recently set itself the goal of ensuring that all provincial departments reach the status of an 'information level' organisation (also termed a 'Level 4' organization by the Auditor-General).

At the 'information level' of financial governance, departments are focused on measuring whether there has been economic, efficient and effective use of resources. This information is accurately measured and reflected in reliable financial information. In order to reach this level of financial governance, departments will focus on both appointing staff with the appropriate training and capacity to perform their duties effectively and strengthening monitoring and evaluation systems already in place.

*Provincial departments
aim to become
Information or 'Level 4'
organisations*

The PT's commitment to achieve the information level target set for the Province is evident in its plans to expand and develop the Internal Audit Unit. The PT intends to build on internal human capacity by introducing learnerships and increasing staff numbers in the Unit. This initiative is closely linked to the improved strategic financial governance objectives outlined in the PGDS.

Internal Audit Unit to be extended in an effort to improve financial governance in all departments

Conclusion

As part of a move begun in 2006, the departments will increasingly work together in their Clusters to implement cross-departmental strategies and coordinate the planning and implementation of their own departmental strategies. The PGDS seeks to induce a marked shift in the growth and development trajectory of the Province. This requires upscaling current programmes, undertaking large infrastructure projects, and the development and successful implementation of visionary cross-sectoral strategies. Two examples of the shift required are the Motor Vehicle Accident Intervention Strategy, which recognises the link between traffic enforcement and the trauma burden in our hospitals, and the safer schools programmes which require equal commitment from WCED and DCS to be truly effective. The Bambanani Volunteers programme is another example of integrated service delivery; volunteers are deployed on trains, and at schools and major public events, to ensure safety as much as to support social cohesion.

Clusters step up inter-departmental coordination and joint implementation

Chapter 3 highlighted infrastructure and skills development as two vital threads which run through AsgiSA and the PGDS and are given expression in the 2007 MTBPS. This Chapter has spoken to massive investments in workforce and skills development, learnerships, and bursaries in a variety of sectors, such as roads, EPWP, FET colleges, agriculture, small business, the environment and tourism. This 2007 MTEF also supports provincial action on connectivity infrastructure, including roads and public transport. With FIFA World Cup 2010 three years away, infrastructure is held up as the cutting edge of the PGDS. Better working transport will give rise to a society with more permeable communities, shorter travel times to employment opportunities and markets, lower costs of doing business, and shared social and economic benefits among communities and population groups.

Skills development and infrastructure emerge as central themes in 2007 MTEF

The summary of departments' progress, plans and future spending priorities contained in this Chapter shows a clear link between the achievements and priorities from the previous 2006 MTEF and the priorities emphasised in this year's MTEF. Past achievements are built upon and national and provincial priorities are sustained and deepened moving forward. Significant changes in how government works and how we build our communities cannot take place overnight. The 2007 MTEF thus demonstrates progressive realisation of the objectives of accelerated and shared growth.

Tight link between 2006 MTEF and 2007 medium term spending priorities